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MOVING TO THE NEXT LEVEL

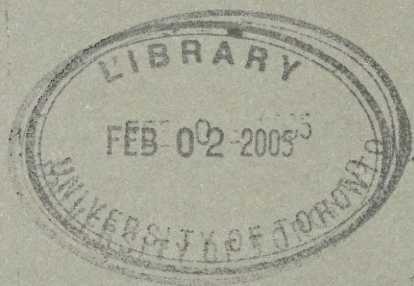
OMERS Annual Report 2003

Investments

➤ Net investment income of \$3.8 billion versus loss of \$2.2 billion in 2002 ➤ Total fund return of 12.7% after two years of negative returns, 14.2% before writedowns ➤ 10-year compounded annual rate of return: 8.0% ➤ Canadian and foreign equities led the recovery in investment performance ➤ Foreign currency management added income of \$763 million ➤ \$896 million of real estate sold, real estate portfolio reduced to \$6.7 billion ➤ New investments included equity interests in Confederation Bridge, Bruce Power and oil pipelines ➤ New long-term asset mix policy to be implemented in 2004, reducing exposure to publicly traded stocks and bonds and increasing infrastructure and private equity assets

Member Services

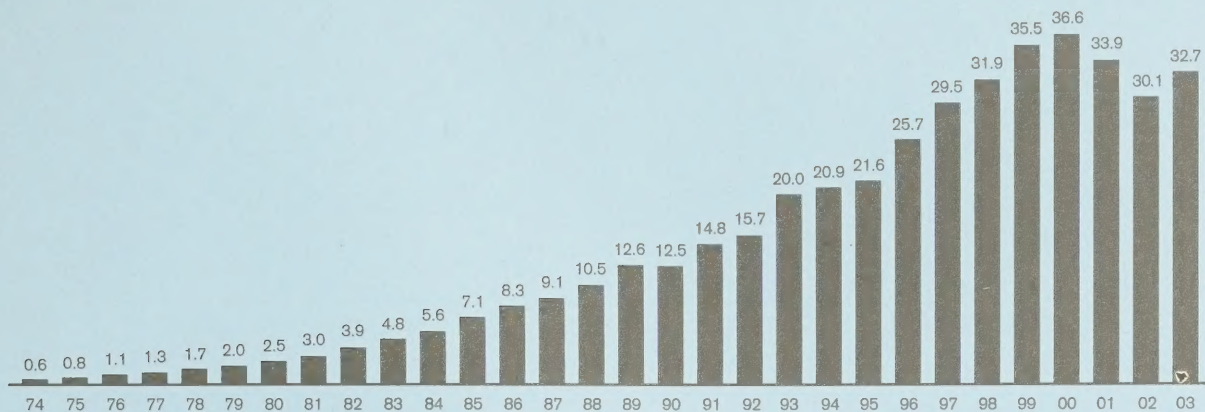
➤ 75% of employers representing 97% of active members now using web-based services ➤ 6,300 new pensions were processed in 2003, bringing the pensioner population to 93,000 ➤ 64% of the new pensions were early retirements, many as a result of early retirement incentives that ended in 2003 ➤ Average new pension: \$19,105 ➤ Contributions resumed at about one-third normal rates after more than four years of contribution holiday ➤ Surveys indicate employer and member customer satisfaction remain high ➤ Service turnaround times well ahead of targets



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NET INVESTMENT ASSET GROWTH FROM 1974 ::

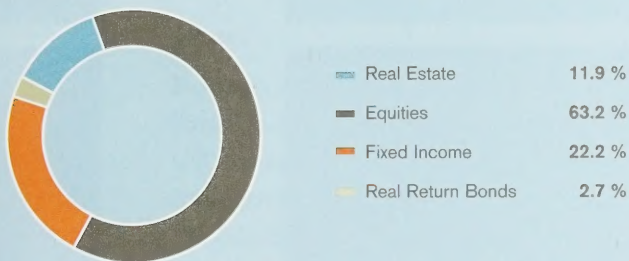
Market Value [\$ Billions]



ASSET MIX ::

[as at December 31, 2003]

Net Investment Assets



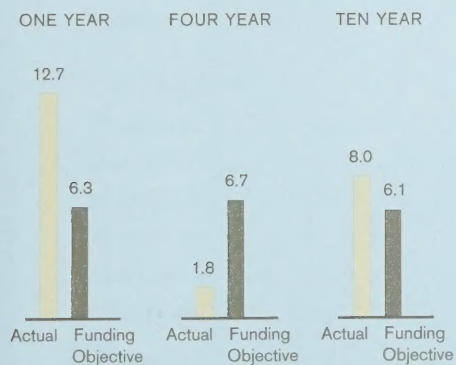
GROWTH IN PENSION PAYROLL ::

[\$ Millions]



RATE OF RETURN VS. FUNDING OBJECTIVE ::

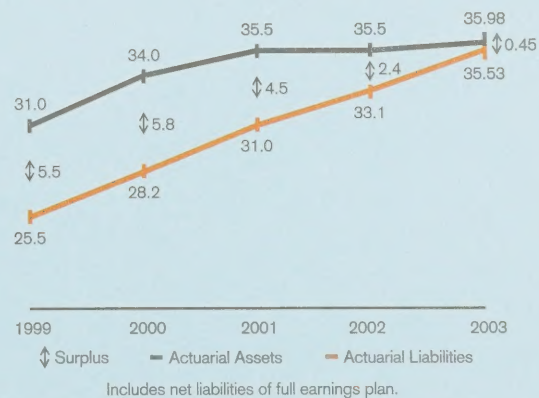
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ACTUARIAL ASSETS AND LIABILITIES ::

[as at December 31]

[\$ Billions]



our challenge > no. 1:

Ensure the quality of our balance sheet – that OMERS assets match its liabilities.

By 2025, the number of retired members could reach 200,000, with accrued liabilities of \$100 billion.

200,000
retirees

our plan of action > no. 1:

Put a greater focus on alternative assets that will produce strong, consistent returns and regular cash flow to pay pensions.

Manage more investments in-house and assume a direct role in managing the businesses we own.

93,000
retirees

2003

2025



BILL RAYBURN ::
CHAIR

message from the chair

Building on a Foundation of Success

Forty years ago, when the first members joined OMERS, there were about 8,000 employees, 160 employers and 19 retirees. The organization was investing approximately \$5 million on their behalf. Our membership and our assets have grown exponentially since then and we now manage close to \$33 billion on behalf of 340,000 members and almost 900 employers. Our current and retired members count on us to continue our tradition of success for the next 40 years and beyond.

Pension plans must always look forward in order to prepare to pay pensions to members who may have 70 or 80 years with the plan. In 2003, the OMERS Board undertook a number of initiatives to address the challenges and opportunities we see ahead of us. What has served us well in the past is not guaranteed to meet our future needs. It is for this reason that we made a number of strategic changes in 2003 to ensure that our track record of success continues into the future.

Looking forward, the Board identified a number of immediate challenges that require a new strategy. We face three main challenges: three years of underperforming capital markets that began in 2000 with corresponding lower returns; a concurrent drop in interest rates, which has increased the cost of future benefits; and an aging population that will result in more retirements and thus a rise in the pension payroll.

Planning for the Future

The Board has been monitoring performance closely with these issues in mind, to ensure the plan is well positioned for the future. In 2003, one year ahead of the regular review cycle, we initiated an assessment of OMERS assets and liabilities and subsequently approved a major shift in our asset mix policy. By reducing the fund's exposure to the more volatile publicly traded markets and concentrating more on alternative assets like real estate, infrastructure and private equity, we expect to see stronger, more stable returns and a steady income stream to pay pensions. This shift in asset mix policy will help address the

prospect of sustained market weakness, while at the same time increasing OMERS control over our investments, and will be implemented over the next four to five years.

We also brought in a new President and CEO, Paul Haggis, whose solid business background and leadership skills have prepared him for the task of taking OMERS to the next level of performance. In conjunction with his arrival our Board began a review of a number of other important issues, such as the costs and value of retaining outside investment firms versus building staff expertise to better manage OMERS assets.

To implement the new asset mix policy and to ensure the organization runs as effectively as possible, with clear lines of accountability, the OMERS Board announced in early 2004 that it will restructure part of the investment organization by creating distinct companies to implement our strategies in private equity, infrastructure and real estate assets.

All infrastructure assets will now be managed by Borealis Infrastructure, all real estate operations will be consolidated under Oxford Properties Group, and all private equity investments will be managed by OMERS private equity group. Publicly traded equities and fixed income assets will continue to be managed in-house by our investment staff.

These groups will report directly to the President and CEO and are accountable to the Board. We will continue to oversee a review of the plan's organizational structure, clarifying mandates and ensuring that it is configured in the most effective way to deliver the results we seek to achieve our long-term goals.

Focus on Plan Governance

To complement our focus on investment issues, the Board and management continue to be pro-active in identifying and managing risk. Concerns about corporate governance and fiduciary responsibility have engaged shareholders and regulators in the past few years and that in turn has encouraged the OMERS Board to examine our own governance practices more closely.

In 2002, the Board adopted what is still a rare practice – separating audit and non-audit functions so that the firm that provides financial statement audit services is prohibited from performing other audit-related work, including tax advice. More recently, we upgraded the audit mandate of the Board to ensure we are in line with best practices. OMERS exceeds current guidelines that state at least one financial expert sit on the audit committee, since we have two such experts on the Board committee. In 2004, we will go one step further by appointing an internal auditor who will report directly to that committee.

Regulatory Reform

In addition to focusing on stronger, more consistent returns, accountability and good governance practices, we must also ensure that the legislative environment in which we operate is conducive to achieving our goals. To that end, we regularly communicate with the provincial and federal governments, often in concert with other public sector plans, to seek amendments to legislation that we believe is negatively impacting the fund.

We have already been instrumental in bringing about a change in federal income tax regulations that will result in more effective management fund management in the future, since pension plans will not be required to suspend contributions when they are in a substantial surplus position. We are currently seeking relief from provincial regulations on solvency valuations and investment regulations that we believe may have a harmful effect on the plan's funding position and its ability to effectively manage its investments.

Monitoring Contribution Levels

Members and employers resumed pension contributions in 2003, for the first time in more than four years. They restarted in January at one-third normal rates after the contribution holiday introduced in August 1998 came to an end. Full contribution rates returned in 2004 with slight increases to better reflect the cost of benefits owed to members. These changes are discussed in more detail on page 16. While net assets increased in 2003, pension obligations have risen even more rapidly. All large public sector pension plans, regardless of their success, face the spectre of funding shortfalls, which could lead to increased contribution rates. In this regard, OMERS is no different. We will continue to closely monitor OMERS performance and to focus on ways to maintain stable contribution rates.

All of these actions are intended to ensure that OMERS next 40 years are as successful as our first 40. Our duty is first and foremost to those who look to OMERS for a secure pension and we are committed to ensuring we earn the funds necessary to pay benefits, that plan participants receive value for money and get the high quality service they deserve.

Acknowledgements

On behalf of the Board, I want to thank all of the sponsors, members, advisors and staff who have contributed to OMERS success in 2003. Your advice, guidance and support were key to the effective and efficient implementation of our reorganizational strategies in 2003. It was an honour to serve the OMERS family in 2003 as I had the opportunity to celebrate 40 years of OMERS success while at the same time charting the course for OMERS as the “plan for the future”.



Bill Rayburn
Chair

Future Asset Mix Policy



our challenge > no. 2:

Ensure the right structure is in place to meet OMERS investment and pension objectives.

our plan of action > no. 2:

Review OMERS organizational structure to ensure it is set up to support our goals. That means stronger centralized controls in risk management and internal auditing, and clearer lines of accountability to the Board and senior management team.



PAUL G. HAGGIS ::

letter from the president

When I started at OMERS in September 2003, I felt very fortunate to be asked to lead such a respected organization. OMERS plays a significant role in the lives of 340,000 members across Ontario and their families, who count on us to provide them with secure pension benefits. And we consistently deliver on that trust by providing guaranteed, inflation-protected payments each month to 93,000 retired members, survivors and dependent children. My goal at OMERS is to build on our first 40 years of success, making sure members receive value for their money and are confident that their retirement income will be there for them in the decades to come.

OMERS posted a return of 12.7 per cent in 2003, a recovery after two years of negative returns. Our net investment assets grew by \$2.6 billion to total \$32.7 billion by year-end. Due to writedowns and valuation adjustments relating to private equity, real estate and infrastructure, and fund underperformance in Canadian equities, we fell short of our overall benchmark. However, our one-year and 10-year returns continue to exceed our funding objective – the amount needed to pay pensions.

Despite these positive results, like other pension plans we're facing some major challenges in the years to come. OMERS concluded 2003 with a modest actuarial surplus of \$446 million (including the regular pension plan and the full earnings plan) and liabilities of \$35.5 billion. Our actuary estimates we could face a funding shortfall of about \$1 billion by the end of 2004.

Three main factors contributed to the decrease in OMERS surplus. After consultation with our stakeholder groups and members, OMERS introduced enhanced benefits in 1998 and 1999, including 100 per cent inflation indexing and temporary early retirement incentives. More than \$5.3 billion did not flow into the plan during the five years ending in 2002, when OMERS was required by federal law to reduce and then cease collecting contributions. The collapse of the equity markets that began in 2000 eroded the assets, while at the same time, a decline in interest rates increased the cost of future benefits.

OMERS is prepared to meet its obligations. In 2004 and beyond, we will take decisive action to ensure that we sustain a fully funded plan over the long term. But we need to do things differently to take the plan to the next level. We need to focus on the quality of our balance sheet; structure ourselves with clear lines of accountability; ensure we have the right people with the right skills and attitudes; focus on the right things; and renew our efforts to understand and meet our customers' needs.

Matching our Assets and Liabilities

Our membership is aging. By 2025, when the last Baby Boomers begin to draw their benefits, our pensioner population will exceed 200,000, a sharp increase from the 93,000 who receive benefits today. Accrued pension obligations could exceed \$100 billion, compared with \$35.5 billion in 2003. Our job is to make sure that we have sufficient assets to match projected liabilities, and that these assets continue to generate enough annual cash flow to meet the pension payroll.

The new asset mix policy that we announced early in 2004 was one of the first steps in taking OMERS to the next level of performance. By reducing investments in the more volatile publicly traded stock and bond markets we believe we can achieve higher and more stable returns to keep pace with our growing liabilities. Alternative assets include some of the more tangible assets in our portfolio, like shopping centres, office buildings, energy companies and bridges, and they have the potential to deliver predictable, double-digit returns over the long haul and generate steady cash flow to meet our pension payroll.

Planned for Accountability

As we implement the shift in our asset mix, we will also be adjusting our investment strategy, applying three important new principles. First, we are committed to actively managing our assets, in order to add value wherever possible. Second, we will assume a direct role in managing the businesses we own to ensure our members' interests are protected. Third, we are focusing on achieving stronger, more consistent absolute returns – the amount we earn over and above the rate of inflation – since that is the amount we need to earn to pay pensions.

In early 2004, we announced the creation of three companies to manage real estate, private equities and infrastructure assets, respectively. Adopting a holding company business model will have a profound impact on OMERS organizational design. It will require a greater focus on centralized financial controls and management reporting, and demand clear lines of accountability with explicitly defined roles and responsibilities. We plan to have the new organization in place by the end of 2004.

How to get the best out of people

To carry out these changes, our structures, processes and operations must be organized to support the people who make the decisions. We need to ensure OMERS staff has the right combination of knowledge and skills to achieve the returns necessary, and provide the high quality service our members expect. Our people will have access to the training, tools and information they need, and will be rewarded through a compensation plan that is linked to clearly defined performance targets.

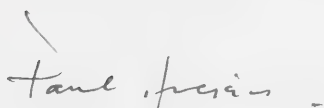
new Focus on our Membership

As a pension plan, our number one priority is to provide guaranteed pensions to members at the lowest cost possible. We also aim to provide the best service possible and so we regularly survey plan participants. As a result of what they've told us, we've made tremendous strides in the quality and responsiveness of our service. We've dramatically reduced turnaround times for key services like new pensions.

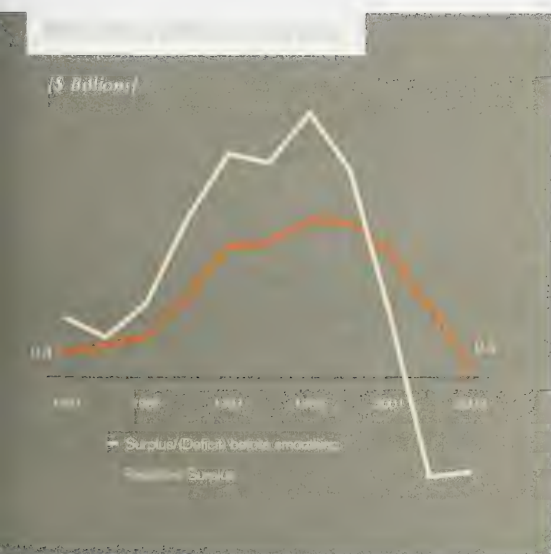
We've improved access through our dedicated call centre, where additional training and technology mean that staff are able to resolve more than 90 per cent of issues on the first phone call, and through a range of web-based services. As we move forward, we'll focus more resources on understanding our customers' expectations and working to deliver the products and services they value. We want them to be glad their money is with OMERS.

All of these initiatives will foster positive change at OMERS. As we enter into this period of transition, one thing that will not change is our commitment to our members. They can continue to count on us, confident in the knowledge that they and their families have a guaranteed source of retirement income in the decades to come.

I want to thank the Board and my fellow OMERS associates for their warm welcome in this, my first year at OMERS. We've already started a number of initiatives with more to come. In the end we seek to create an organization and culture that attracts the best so we can give the best to our current and future pensioners who depend on us. I feel that every day.



Paul G. Haggis
President and Chief Executive Officer



Age Group	Total
19 and below	140
20 - 24	3,996
25 - 29	15,270
30 - 34	22,052
35 - 39	31,298
40 - 44	40,453
45 - 49	39,951
50 - 54	33,630
55 - 59	21,818
60 - 64	8,672
65 and above	313
Total Members	217,593

The largest concentration of members is in the 40 to 49 age range.

our challenge > no. 3:

Ensure that our customers' needs are understood and met.

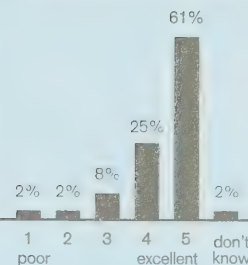
our plan of action > no. 3:

Listen to what they tell us, then deliver the services and products they value. As a result of what they've said, we've already dramatically improved turnaround times for key transactions and improved access through web-based offerings. We'll continue to look for ways to serve our customers better.



Total respondents = 1,700

Satisfaction Level	Percentage
1 (poor)	2%
2	2%
3	8%
4 (excellent)	86%
5	3%



Total respondents = 1,084

member services

OMERS delivers a full spectrum of pension services to employers and plan members, active and retired. These services are increasingly web-based.

Employers embrace OMERS web-based services

In the past two years, excellent progress has been made with our web-based services for employers. They can now submit a greater amount of member information efficiently and conveniently, while maintaining greater data integrity. By year-end, 75 per cent of employers representing 97 per cent of active members had signed on to our new e-business forms and processes. We are currently investigating how we can take the business relationship to a new level of responsiveness through a renewed partnership.

Faster, more complete member services

Our call centre recently introduced technological improvements that enable staff to analyze and respond better to the specific issues raised by active and retired members. Members contacting the call centre are getting faster and more complete service following the integration in 2003 of our retired member database with the active member information system to create a single pension administration system.

COMPARISON TRANSACTION TIME FOR PENSION CLAIMS AND PENSION QUOTES

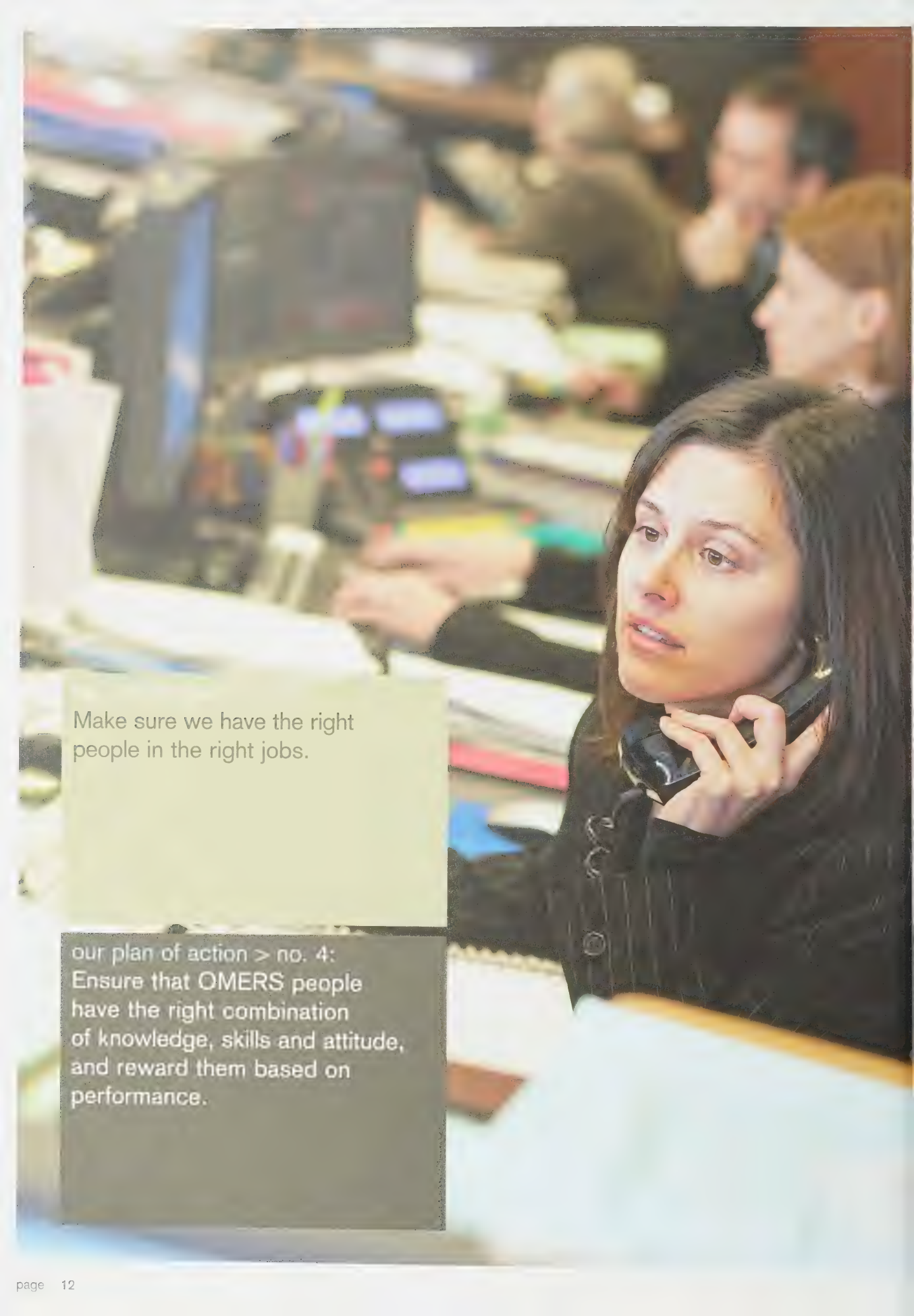
	Pension Claims Processed	Pension Quotes Processed
2001	10 days	17 days
2002	3 days	2 days
2003	2 days	2 days

Number of days reflects OMERS processing time only

While technology and secure web channels drive our services and efficiencies, we have not forgotten the importance of face-to-face contact with stakeholders. In 2003, we held 17 information sessions with hundreds of retired members to discuss their questions and concerns, such as inflation protection and survivor benefits. We also met with more than 10,000 active members and employers at hundreds of meetings.

Higher Customer Satisfaction Reported

We regularly survey active and retired members to determine their level of satisfaction with our services, especially with respect to critical pension events such as retirement, a leave of absence or a death. We are pleased that overall customer satisfaction remains high. For example, 86 per cent of active and retired members contacting our call centre gave OMERS a four-out-of-five or better satisfaction rating.

A woman with long dark hair is in the foreground, wearing a black headset and talking on a black telephone. She is looking slightly to the right with a focused expression. In the background, other people are working at desks with computer monitors, but they are out of focus. The setting appears to be a busy office or call center.

Make sure we have the right people in the right jobs.

our plan of action > no. 4:
Ensure that OMERS people have the right combination of knowledge, skills and attitude, and reward them based on performance.

management's discussion and analysis

This section contains management's analysis of the plan's financial condition and operational results and the environment in which it operates. It is intended as a plain-language comprehensive stand-alone discussion in compliance with the best disclosure practices recommended by accounting organizations, auditors and regulators and expected by plan members and those who do business with OMERS. Assumptions are made about economic, demographic and investment trends that are subject to risks and uncertainties and may vary from those anticipated.

Our core business is to deliver guaranteed pension benefits to more than 340,000 active members, former members and retired members of OMERS. This guarantee extends throughout the member's retirement and benefits increase annually with inflation.

Benefits are based on a simple formula – two per cent of the member's average earnings for the best five consecutive years multiplied by years of credited service, to a maximum of 35 years. The OMERS pension is integrated with the Canada Pension Plan and the OMERS formula includes a bridge benefit paid to age 65. Excellent survivor benefits and early retirement options are key features of the plan.



Each year, an independent actuary determines the plan's funding status by comparing the estimated value of invested assets to the present value of all pension benefits that members have earned to date. On December 31, 2003, the estimated accrued pension obligation for current members (including the net liabilities of the full earnings plan) was \$35.5 billion.

Actuarially adjusted (discussed below) OMERS had an estimated funding surplus of \$446 million as at December 31, 2003 (including the net liability of the full earnings pension). This was a sharp decline from the \$4.5 billion surplus estimated as at December 31, 2001, the date of the last full valuation.

OMERS FUNDING STATUS

(Millions)	2003	2002
Surplus, beginning of year	\$ 2,514	\$ 4,520
Increase in net assets available for benefits	2,587	(3,736)
Change in actuarial asset value adjustment (smoothing reserve)	(2,160)	3,809
Increase in actuarial value of:		
net assets available for benefits	427	73
Less: net increase in accrued pension benefits	2,402	2,052
Less: change in contribution liability	30	27
Surplus, end of year (Basic plan)	\$ 509	\$ 2,514
Net liability of full earnings pension	(63)	(58)
Excess of actuarial value of net assets over actuarial liabilities	\$ 446	\$ 2,456

Putting pressure on the surplus were increased pension benefits and the contribution holiday triggered by the large surplus that existed in 1998. Under federal law at that time, a contribution holiday was mandatory when actuarial assets exceeded 110 per cent of liabilities. Actuarial asset values peaked at 127 per cent of liabilities, triggering reduced contributions, followed by a contribution holiday for employers and plan members that began in 1998 and lasted until December 2002. As a result, more than \$5.3 billion in contributions did not flow into the plan. In November 2003, the federal government amended the *Income Tax Act* in response to requests by OMERS and other plans. Only a partial contribution holiday is now triggered when assets reach 110 per cent of liabilities and a full contribution



holiday is not required until the 125 per cent level. The change will allow OMERS to better manage contribution rates and should improve funding stability for a future generation of members.

The 2003 funding surplus was also reduced due to recognition of losses carried in the smoothing reserve as a result of the 2000, 2001 and 2002 stock market collapse. Asset values recovered in 2003 as stock markets regained lost ground. Smoothing helps manage the impact of short-term market volatility, is in keeping with the long-term nature of the plan and is designed to reduce the volatility of a single year's investment returns. Changes for the current year plus the four preceding years are smoothed to produce an adjusted market value. On December 31, 2003 the actuarially adjusted value of net assets was \$36.0 billion, compared with \$35.5 billion a year earlier. This included \$3.9 billion for the actuarial smoothing reserve. The December 31, 2003 market value of net assets of the fund was \$32.1 billion.

To value the liabilities, the actuary examines the plan's demographics – the age, length of service, annual earnings, full-time versus part-time employment status and other factors of OMERS diverse membership. Information is processed on active and retired members, former members who still have entitlements in the plan, and surviving spouses and children who receive benefits. In addition, expected rates of mortality, disability and termination of employment data are factored in. The estimated present value of accrued liabilities before net liabilities of the full earnings pension for 2003 was \$35.5 billion, a 7.6 per cent increase from \$33.0 billion in 2002. OMERS ended 2003 with more than 93,000 retired members and survivors receiving benefits of \$1.2 billion, an increase of \$93 million over 2002. The increase reflected new retirements and the adjustment of benefits for inflation. (The inflation adjustment in 2004 will be 2.16 per cent.)

Of the approximately 6,300 new pensions processed in 2003, 64 per cent were early retirements, many taking advantage of two incentives that expired at year-end. One allowed early retirement for members within 15 years of their retirement age. The other allowed members short of unreduced early retirement to retire early with a pension reduced by 2.5 per cent rather than the normal reduced pension rate of five per cent, which applied in 2004.

The Board normally allocates a portion of the valuation surplus equal to five per cent of the actuarial liability to a Funding Stabilization Reserve as a cushion against volatile investment returns or a surprise change in liabilities. The Board may also allocate a portion of the surplus to a Contribution Deficiency Reserve to assist in the management of future contribution shortfalls. The funding surplus was insufficient to warrant these allocations in 2003.



Funding Outlook

The actuary estimates that the funding surplus will deteriorate to a deficiency of about \$1 billion at the end of 2004. This estimate takes into account changes in contribution rates effective January 1, 2004. For most members, the base rate remains at 6.0 per cent of salary up to \$40,500, increasing from 7.5 per cent to 8.8 per cent for earnings above that level. For police officers and firefighters, who retire at age 60 and represent about 12 per cent of OMERS members, the rate for salary up to \$40,500 increased from 7.0 per cent to 7.3 per cent and from 8.5 per cent to 9.8 per cent for earnings above that level. Over the long term, contributions will provide approximately 30 cents of every dollar paid in benefits with the other 70 cents coming from investment income.

In calculating the surplus, the actuary makes various long-term economic and demographic assumptions. Assumptions about investment returns affect the projected value of assets. Assumptions about inflation and salary increases affect the projected value of future benefits. The Board reviewed the actuary's latest estimates in December 2003 and agreed to maintain the current assumptions, including an annual 4.25 per cent real rate of return with inflation at 3.0 per cent over the long term and an assumed 4.5 per cent annual increase in member earnings. The assumptions will be reviewed in 2004.

SETTING THE ASSET MIX POLICY

The objective of our investment policy is to earn more than a 4.25 per cent real return so that the plan builds a surplus to cushion short-term declines in asset values. We develop an asset mix policy that identifies the asset classes that collectively are most likely to produce the best results. We weigh the risk/reward profile of each asset class to make sure we are reasonably compensated for risk, and we invest in different asset classes and geographic markets to disperse portfolio risk and reduce the volatility of total returns.

Over the next 10 years, stocks and bonds are not likely to generate sufficient returns to meet the funding requirement. Consequently, we are reducing exposure to public stock and bond markets, maintaining a large real estate portfolio, and shifting capital to private equity and infrastructure assets, which should generate strong returns over the long term. The new asset mix policy is supported by sophisticated investment strategies such as absolute return strategies, foreign currency management and derivatives.



Asset Mix Policy

	2003 Policy Target	2004 Policy Target	Long-Term Policy Target
Public Markets			
Public equity	60%*	58.5%	42.5%
Fixed income	25%	15%	15%
Real return bonds	2.5%	5%	5%
Alternative Assets			
Private equity	—	} 9%	10%
Infrastructure	—		15%
Real estate	12.5%	12.5%	12.5%

The shift of more than one-third of total assets from stocks and bonds to alternatives such as infrastructure and private equity, will take four or five years to accomplish.
 *Total equities, including private equity and infrastructure.

Managing the Asset Mix

Our investment specialists meet regularly to review the actual asset mix against the approved policy. They determine, for example, whether we have assumed uncompensated risk by being inadvertently overweight or underweight in key asset classes. Their recommendations are reviewed by the Investment Management Committee, consisting of the Chief Executive Officer/Chief Investment Officer and investment vice-presidents. Usually, fixed income or equity-based derivative contracts are purchased or sold to adjust the asset mix in the short term. Regular rebalancing can improve performance and risk management by eliminating uncompensated tracking error. Rebalancing also ensures sufficient liquidity to meet pension and operating obligations.

PUBLICLY TRADED STOCKS AND BONDS

Historically, OMERS has invested more than 80 per cent of total investment assets in publicly traded stocks and bonds. Over the next five years, we will reduce exposure to public markets to about 63 per cent of total investments. We will actively manage all portfolios and expand the use of staff expertise. In the case of fixed income, staff will continue to actively manage portfolios of government and corporate bonds, mortgages and real return bonds.



The Canadian stock portfolio that is actively managed by staff totalled \$5.1 billion in 2003 and contained approximately 181 publicly traded companies. We select companies with strong management and a clear business plan, avoiding low-quality opportunities that may do well in the short term but lack staying power.

Our investment professionals are value investors who buy the shares of profitable companies that can produce reliable long-term returns. They select, for example, companies that should gain value from synergistic acquisitions or have a competitive advantage in their industry. Within approved asset allocation guidelines, staff can take advantage of short-term trading opportunities to generate added value. On average, we trade as much as 20 per cent of the portfolio annually.

Up to 10 per cent of our core actively managed portfolio can include U.S. stocks to enable us to add companies in economic sectors underrepresented in Canada, such as pharmaceuticals, or regional banks that have different valuation multiples and performance profiles than Canadian banks.

Outside Canada, we had \$5.6 billion invested in the equities of approximately 1,250 companies in the United States, United Kingdom, Europe, the Far East and emerging markets. This diversity enables us to participate in different economies around the world.

Our foreign stock portfolios are actively managed by 14 investment firms specializing in regional and national markets. We are shifting to global mandates so that managers can make bigger allocations by country, sector or capitalization where they believe higher returns are possible. In 2003, we retained three global managers and expect that half our international equity will be more aggressively managed under flexible mandates to achieve absolute returns rather than simply beat market benchmarks.

In the past two years we have attempted to earn enhanced and less volatile returns from market indexes by employing actively managed low-risk strategies that include index-based swaps, arbitrage and the anticipation of changes in index composition. Using technical analysis and computer modeling, these strategies, referred to as quantitative management, are applied to:

- A \$0.7 billion portfolio that targets the S&P/TSX Composite Index on the Toronto Stock Exchange and provides broad exposure to Canadian firms.
- A \$180 million S&P/TSX 60 portfolio of Canada's 60 most liquid stocks, representing 75 per cent of the Toronto Stock Exchange capitalization.



- > A \$1.2 billion Russell 1000 portfolio of U.S. companies diversified by capitalization value and economic sector.
- > A \$355 million S&P 500 portfolio of the largest and most liquid U.S. stocks.

Fixed income securities are a natural fit for a pension plan seeking reliable low-risk returns that offset the more volatile nature of publicly traded stocks. We concluded 2003 with \$13.0 billion, or 37 per cent of total investment assets, invested in fixed income opportunities. Approximately \$6.8 billion were invested with exposure to bonds, mortgages, private debt and short-term investments, \$0.9 billion in real return bonds and \$5.3 billion were backing assets for equity programs.

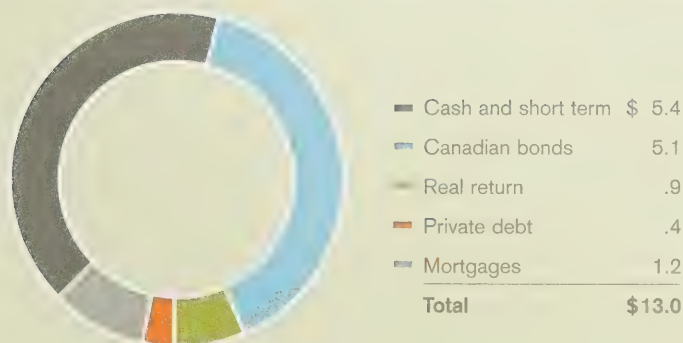
As of December 31, the fixed income portfolio consisted of federal bonds, provincial bonds with an overweight in Ontario due to \$120 million of illiquid Ontario debentures remaining from OMERS early days, mortgages with a mix of commercial, industrial and multi-residential loans, real return bonds issued by governments, corporate bonds of institutional investment grade, private placements, loans guaranteed by such government agencies as Canada Mortgage and Housing Corporation and the Export Development Corporation, and short-term cash equivalent securities.

In the past 10 years, the fixed income portfolio has earned an annualized return of 7.8 per cent, including capital gains in a declining interest rate environment. We are now in a more modest yield environment where these assets will not earn enough to cover the costs of pension benefits. Compared with our total fund target of 4.25 per cent plus inflation, long-term government bonds were yielding about 3.0 per cent above inflation and mid-term 10-year bonds between 2.0 and 2.5 per cent at the end of 2003.

In actively managing fixed income assets we are acquiring higher yield corporate bonds and increasing our participation in private placements. Our higher yield \$445 million private placement portfolio is expected to double in size over the next few years. We will also move into the U.S. market by following debt issued south of the border by Canadian corporations seeking more competitively priced capital.

Recently, we issued private debt to other institutional investors through OMERS Realty Corporation to refinance \$1.3 billion in real estate debt. Based on our triple A credit ratings from leading credit rating agencies, we issued two private placement tranches (\$500 million in November 2002 and \$500 million in April 2003) as well as a \$285 million commercial paper program that commenced in October 2003. The net effect was stable, predictable financing costs.

[\$ Billions]



ALTERNATIVE ASSET CLASSES

Attractive alternatives to public stocks and bonds include private equity, real estate, where we own a large portfolio, and infrastructure assets, a growth area for OMERS.

In early 2004, OMERS announced that it would increase its exposure to alternative assets and that it would restructure parts of its investment organization to realize our strategies in private equity, infrastructure and real estate assets. These assets were managed by Borealis Capital Corporation, in which OMERS had a minority interest. To implement the new asset mix policy and to begin the process of adopting a new holding company model, it made sense to bring the management of these assets under OMERS control, where they could conduct business as separate entities with clear lines of accountability and enhanced governance.

OMERS purchased the remaining Borealis shares for \$49.9 million. OMERS expects to recoup the net cost of the purchase in approximately one year through the elimination of third party asset management fees, overhead cost synergies and increased revenue.

In February 2004, Oxford Properties Group took over all real estate operations, leaving Borealis to focus on its original mission as Canada's leading infrastructure asset manager. Private equity will be managed by OMERS private equity group.

Focus on Private Equity Growth

Private equity is the ownership of equity or equity-like securities in companies that do not trade publicly. These investments appeal to OMERS because history shows that over time they generate higher long-term returns than public equity portfolios to compensate for their illiquid nature. Generally, private equity investments are held for five to seven years and so patient capital is required. Our ten-year return on private equity (excluding infrastructure) was 8.3 per cent.

Currently \$0.9 billion, or about 2.8 per cent of the total net investment assets, is invested in private equity (excluding infrastructure), with 50 per cent managed by approximately 40 external fund managers in Canada, the United States and Western Europe. The remaining 50 per cent is directly invested in companies. Our new strategy will build private equity to approximately 10 per cent of total fund assets over the next four to five years.

We will continue to invest up to half our funding in limited partnerships managed by external specialists, who have demonstrated the ability to consistently outperform their peers over time in selecting investee companies. The partnerships that we establish will form the cornerstone of our co-investment strategy.



Our strategy will include co-investing alongside funds managed by external specialists as well as other like-minded institutions. These investments will range from \$15 million to \$100 million and will exclude early stage venture capital. A successful program would result in OMERS being viewed as a preferred partner to top-tier fund managers, resulting in increased returns to OMERS.

We will make direct investments with like-minded investors, with OMERS staff identifying the opportunities, conducting the due diligence, structuring the deal and leading or co-leading the investor consortium. These investments will range from \$20 million to \$100 million and, like our co-investments, will be exclusively late stage expansion, buyout or mezzanine opportunities.

Infrastructure assets, especially in sectors regulated by government, can generate reliable investment returns exceeding our total fund target. Individual assets require large amounts of capital committed for up to 30 years. They can generate substantive cash flows year-after-year, a perfect fit in meeting our long-term pension obligations.

Through Borealis Infrastructure Corporation, OMERS is a Canadian leader in the infrastructure sector. These assets include majority or minority equity positions alongside other pension, corporate and government investors. At year-end, we had committed approximately \$2.3 billion to infrastructure projects, of which \$1.2 billion had been invested.

The largest investment was a one-third interest in the Bruce Power nuclear facilities that supply about 15 per cent of Ontario's electricity. We also invested in a pipeline system that exports crude oil from Alberta to the United States and serves refineries in six western and midwestern states.

Other investments in 2003 included an interest in Confederation Bridge linking Prince Edward Island and New Brunswick under a concession agreement with the federal government until 2032 and funding for the Detroit River Tunnel in the expectation of redeveloping it as a high-speed Canada/U.S. train and truck trade-way corridor.

Among other OMERS infrastructure investments are 16 elementary and secondary schools in Nova Scotia and 11 long-term care facilities in Ontario with more than 1,500 beds.

High quality and larger scale assets generate reliable cash flows, facilitating our ability to meet current benefit claims. Furthermore, properly maintained real estate appreciates in value over time in step with inflation, offsetting the inflation exposure of pension liabilities.



In Canada, our portfolio contains 66 predominantly Class A office properties, such as BCE Place in Toronto, Shell Centre in Calgary and Oceanic Plaza in Vancouver; 13 super-regional, regional and community shopping centres, including Yorkdale Shopping Centre in Toronto and Oakridge Centre in Vancouver; 7 industrial properties in business parks, 2,384 rental units in multi-residential apartment buildings, and other assets such as developable land. In total, the real estate portfolio had 50.0 million square feet of gross leasable area that generated \$548 million in operating income in 2003. We also own units in Canadian and U.S. real estate investment trusts and an international real estate fund.

Oxford Properties Group, which OMERS fully acquired in 2001, will be the primary vehicle for executing our strategy of developing a global enterprise in the real estate sector. The strategy will emphasize the ownership and management of high-quality and large-scale assets diversified by property type and geographic market.

We sold \$896 million of real estate in 2003, principally office buildings and shopping centres that did not fit with our long-term core strategy, and wrote down \$431 million in goodwill, appraisal losses and adjustments to reflect more conservative valuations. At year end, OMERS owned a \$6.7 billion real estate portfolio, trimmed by approximately 13 per cent from \$7.7 billion a year earlier. Our goal is to invest about 12.5 per cent of total assets in real estate.

To better manage risk and enhance returns for the total fund, we employ a number of investment strategies. These include absolute return investments, managing exposure to foreign exchange fluctuations, and extensive use of derivatives. All are designed to improve returns by mitigating uncompensated risks.

We began to invest in absolute return investments in March 2003 by placing US\$200 million with two external fund-of-funds that have 59 underlying fund managers.

Absolute return investing is intended to generate stable and positive returns even in falling equity markets.



Foreign Currency Management

We apply absolute return strategies to foreign currency. Decisions are made about trends in specific currencies so that we can earn additional returns and reduce hedging costs. Our absolute return strategy is implemented through three foreign exchange managers and by our own staff. Together, these programs produced income of \$763 million in 2003.

Approximately 37 per cent of OMERS assets before hedging were exposed to foreign exchange risk.

Our largest foreign currency management strategy hedges 50 per cent of 13 major currencies, narrowing their volatility relative to the Canadian dollar. At year end, \$12.2 billion of assets in foreign currency were hedged on this basis.

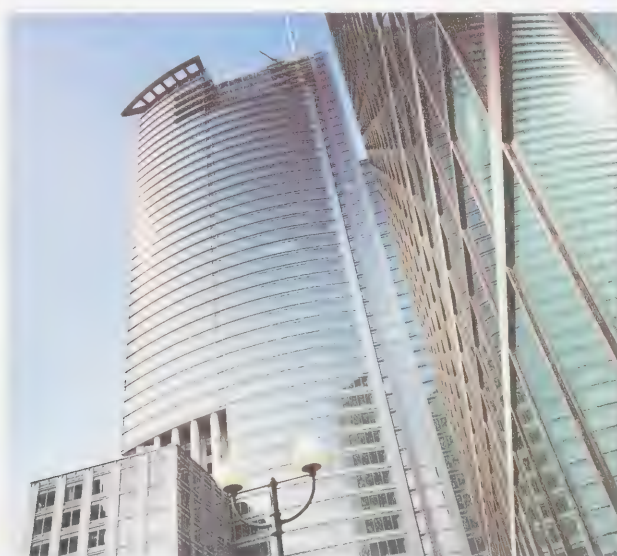
Global Derivatives Portfolio

As part of our total derivative program, we manage a \$3.3 billion dedicated core portfolio, nominally representing about 10 per cent of the total fund, that uses financial contracts to replicate returns based on an optimized exposure to the Fund's international equity benchmark – 50 per cent exposure to the Russell 3000 Index in the United States and 50 per cent exposure to the FTSE All World Composite Index excluding Canada and the U.S., over the balance of the world. This exposure to international equities complements the global stock portfolios managed by external specialists. We also buy and sell equity options to improve the returns and mitigate the risk of our actively managed Canadian stock portfolio.

In the search for higher returns, we enter into financial contracts, such as swaps, that provide the return from a bond, equity or other reference index in place of cash investments, when it is deemed appropriate. The money required to support the contract is invested in a debt instrument that earns income in excess of the amount paid on the swap obligation.

Derivatives are cost-effective and risk-efficient in putting to work money allocated for eventual investment in major assets, such as commercial properties, infrastructure projects or private equities. At the end of 2003, approximately \$1.4 billion was invested on this basis. As discussed earlier, derivatives also enable us to rebalance the total fund asset mix, or the asset mix within a class, on short notice if the allocation of capital has inadvertently drifted from the approved asset mix policy.

The credit risk exposure for derivatives is the unpaid amount receivable from counter-parties. We follow extremely prudent risk management policies with credit risk exposure limited to five per cent of total fund net assets. In 2003, the credit risk exposure was 1.1 per cent, or \$339 million.



OMERS earned a 12.7 per cent total fund rate of return in 2003 following two consecutive years of losses. After allowing for inflation of 2.0 per cent, the real rate of return was 10.7 per cent, more than double the real return funding requirement of 4.25 per cent. Investment income before interest expense totalled \$3.8 billion in 2003, versus a loss of \$2.2 billion a year earlier.

While pleased with the turnaround in total fund returns, we fell short of the 2003 total fund benchmark of 15.5 per cent by 275 basis points.

Net investment assets grew by \$2.6 billion, or 8.6 per cent to \$32.7 billion. Driving the increase was the recovery in public equity values. Significant rebalancing occurred through major investments in infrastructure assets, offset by a 13 per cent decrease in real estate assets following planned sales and the reduction in real estate debt associated with the sold assets.

Asset values were adversely affected by one time write offs and valuation adjustments in 2003. When OMERS acquired Hammerson Canada in 1999 and Oxford Properties Group in 2001, goodwill values were assigned to the companies and specific properties based on independent appraisals, consistent with normal real estate industry practice. (Goodwill refers to any premium paid above the value of net assets to gain control of a corporate entity.) Each year, the independent appraisers suggest a valuation range for real estate assets. Due to softer real estate markets, we recognized that certain office and retail properties were overvalued. Consequently, our investment assets have been reduced by a total of \$232 million in write offs in goodwill allocated to real estate and other real estate provisions.

Independent appraisers also value our private equity and infrastructure assets annually. As there is no public trading market for these assets, it is difficult to value them until they have established a proven financial track record. OMERS has taken a prudent position by accepting the valuations at the low end of the appraisal range. As a result, we wrote down \$183 million on private equity and infrastructure assets in 2003.



Performance Overview

Equities contributed most to OMERS performance recovery, generating \$1.3 billion from the Canadian market and \$1.8 billion from global markets. The \$3.1 billion generated was a dramatic turnaround from the \$3.4 billion loss a year earlier. The Canadian equity return was 19.4 per cent, versus a negative 9.2 per cent in 2002. The total foreign equity return was 17.8 per cent in 2003, versus a negative 19.9 per cent the prior year. Foreign equities did well in their local market currencies. Though the return was reduced after conversion into Canadian dollars, our hedging program mitigated the losses.

Canadian fixed income securities, not including real return bonds, produced reduced though reliable income of \$560 million, a \$178 million reduction from 2002. The return of 7.0 per cent compared with 9.6 per cent a year earlier. Real return bonds had solid returns of 13.4 per cent compared with 15.3 per cent in 2002. These bonds produced \$108 million in income.

Our real estate assets generated \$56 million, compared with \$245 million a year earlier. After accounting for interest expense, the 2003 return was negative 3.7 per cent, compared with a 1.3 per cent return in 2002. Real estate generated \$548 million in operating income, offset by the write downs discussed earlier and losses on asset sales.

OMERS annualized four-year return (a standard measure in the pension fund industry) was 1.8 per cent, well below the 6.7 per cent four-year funding requirement. The four-year period included losses during the worst stock market collapse since 1929. The 10-year return was 8.0 per cent versus 6.1 per cent for the funding requirement. Since first implementing an active investment policy in 1974, the fund has a 10.1 per cent compounded annual return, compared to a funding requirement of 8.8 per cent.

A short-term goal is to consistently add value on a risk-adjusted basis above the returns of the markets in which we invest. We measure the performance of each portfolio against an objective benchmark that acts as the proxy for each market. When we exceed the benchmark, we add value to the portfolio over and above the return that comes from the markets. This concept of value added is important even when we have negative returns. The benchmarks are aggregated and weighted to conform to our asset mix policy to provide a benchmark for the total fund.

The \$13.0 billion Canadian fixed income portfolios included \$5.3 billion in assets (primarily short-term deposits and bonds) that support our derivative programs and \$0.9 billion in real return bonds. A total of \$6.8 billion was invested with exposure to bonds, mortgages, private debt and short-term investments and had a return of 7.0 per cent in 2003, versus 6.5 per cent for the benchmark. The gain



of 50 basis points over the benchmark primarily reflected the performance of our core active bond portfolio and mortgage portfolio, both of which had gains from changes in interest rates.

Fixed income assets included \$872 million of real return bonds, that as expected, met the benchmark with a 13.4 per cent return versus 13.3 per cent for the benchmark.

In the equity category, the 19.4 per cent return on the \$7.6 billion Canadian public and private equity portfolios plus the Canadian equity derivative exposure portfolios, under performed the benchmark return of 25.6 per cent. Public and private foreign equities valued at \$7.6 billion, and foreign equity derivative exposure reversed the disappointing performance in 2002 to earn 17.8 per cent in 2003, in line with the 17.9 per cent benchmark return. The U.S. portfolios make up about half of foreign equities.

The \$2 billion private equity and infrastructure portfolio reported a negative 10.3 per cent return, compared to the 4.6 per cent benchmark return. Over the past 10 years, private equities have earned an average annual rate of return of 10.7 per cent versus 6.5 per cent for the benchmark.

As discussed earlier, the \$6.7 billion real estate portfolio (partially funded by \$2.5 billion in mortgages and other debt) performed poorly with a negative 3.7 per cent return in 2003 versus a 7.1 per cent return for the benchmark.

Including contributions, the total fund generated \$1.9 billion in cash flow in 2003, compared with \$1.5 billion the prior year. The largest sources of cash were:

Fixed income assets at \$547 million. This income is expected to diminish in the next few years as we reduce the size of the asset class and as maturing higher yield bonds are replaced with lower yielding securities due to the current low-interest rate environment.

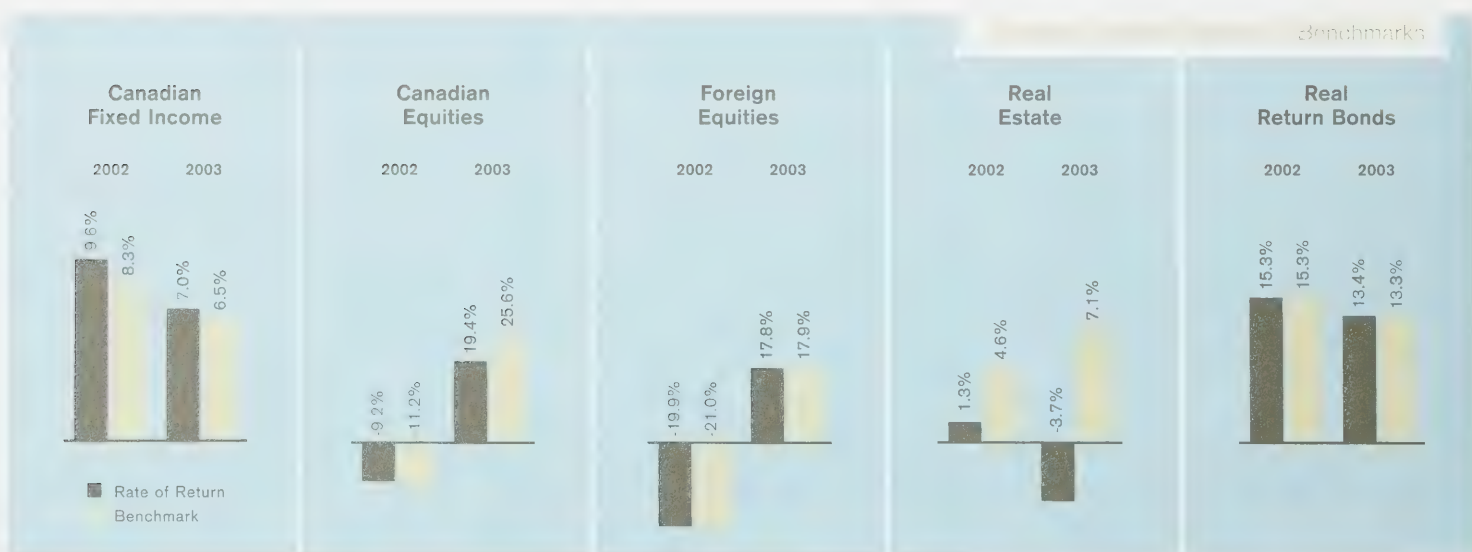
Real estate at \$548 million. This may diminish in the short term following property sales in 2003 and projected higher office vacancy levels in the near term.

Employer and member contributions at \$446 million. The increased contribution rates effective in 2004 will generate greater cash flow, making contributions the largest source of cash.

\$127 million from private equity and infrastructure assets, which should increase markedly in the next few years.

\$275 million from dividend payments on public equities. This income will moderate as we reduce our holdings of public stocks.

Cash flow was used principally to pay pension benefits that increased by \$93 million to \$1.2 billion in 2003.



governance practices

OMERS strives for best governance practices in its own operations, consistent with the expectations it has of companies in which it invests.

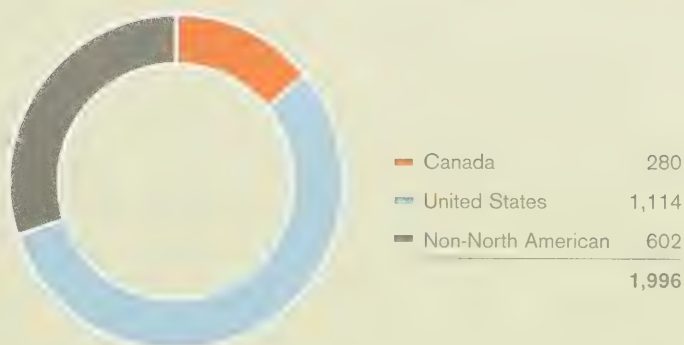
OMERS owns shares in approximately 300 publicly traded companies in Canada and more than 1,900 companies outside Canada. We encourage them to generate shareholder value by practicing enlightened governance. Well-managed companies, with strong governance processes, generally produce better long-term returns, as confirmed by a recent study by a leading corporate governance rating agency.

The study analyzed the stock returns of 1,600 major global firms over the three years ended August 2003. The average annualized return for firms with well above average governance ratings was 5.37 per cent, compared with negative 13.27 per cent for the well below average group.

OMERS will continue to pursue improvements in governance practices by the boards and managements of its holdings because good governance matters to our total fund performance. We are pleased to note that five TSX companies recently eliminated or announced plans to eliminate their dual-class structure, accepting instead one vote per common share for all shareholders. All five companies experienced immediate share price appreciation. We also support enhanced corporate governance through our membership in the Canadian Coalition for Good Governance and the Global Institutional Governance Network.

Our *Proxy Voting Guidelines* set out our policy on corporate governance matters and indicate how we will likely vote on individual issues. We consider the quality of a company's overall governance in deciding whether to vote for or against specific proposals. The guidelines and our voting record on major proposals for Canadian companies can be found at [www.omers.com](#).

In 2003, we voted a total of 1,996 proxies, casting "no" votes over 50 per cent of the time. "No" votes are cast for all issues that we feel would dilute shareholder value.



We are troubled by several corporate practices that are not in the best interests of shareholders. The most prevalent are attempts by corporate managers to expand their stock option plans, to re-price existing options where the strike price is too high for them to make money in the short term, and the granting of options to directors. Excessive stock options dilute the value of our holdings, are prone to enrichment abuse by executives, and in the case of directors, align their interests with those of management, not with shareholders. We support resolutions requiring the expensing of stock options as we see them as a deterrent to excesses in granting further options and necessary to ensuring that the financial statements are complete and accurate.

We object to attempts by boards and management to install anti-takeover devices that can prevent shareholders from realizing full value in the event of an acquisition offer. Consequently, we support resolutions opposing old-style shareholder rights plans known as “poison pills”, supermajority voting, and staggered boards.

We are concerned about the lack of fully independent directors on audit, compensation and nominating committees and withheld our votes in elections where nominees were not independent of management. In the United States we are usually able to vote for directors individually. In Canada too many boards continue to nominate a slate of directors, forcing us to withhold our vote for all directors.

We continue to see too many situations in which the accounting firm retained to audit the financial statements receives a high ratio of fees from consulting work. This is an unacceptable practice and we withheld votes from many audit committees and the ratification of the external auditor proposed by the company.

Well-managed companies demonstrate respect for their employees, the environment, human rights, and the communities in which they do business. As a result, we generally support shareholder resolutions that enhance environmental, human rights and ethical issues in the best interests of shareholders and oppose similar resolutions that are frivolous, politically motivated or likely to harm shareholder interests.

Another concern in the past year was the introduction of proposals by companies to reduce the quorum requirements for shareholder meetings. In one case, the resolution reduced the quorum from 40 per cent of outstanding shares to 10 per cent. We view this as an attempt by management to seize control of shareholder meetings by aligning with two or three friendly shareholders.

OMERS Board

PLAN GOVERNANCE OVERVIEW

OMERS provides pension services to more than 340,000 members and about 900 employers who have the right to know how their plan is governed and managed.

Board role and duties

As a fiduciary, the OMERS Board acts in good faith, taking into account the best interests of the plan as a whole. The Board's authority is set out in the *OMERS Act* and *Regulation*. Responsibilities include setting OMERS strategic direction, allocating financial resources, recommending plan design changes (subject to provincial government approval), determining investment asset mix, approving contribution rates, appointing the CEO, monitoring organizational effectiveness, and establishing executive compensation policy. The CEO is not a member of the Board, and the Board reviews his performance annually. Day-to-day management of OMERS is delegated to the CEO.

Board independence

The Board appoints the auditor, custodian, and actuary, and regularly solicits legal advice. The Board holds regular in camera meetings without management present. The Board holds two strategic planning sessions each year and requires management to develop a multi-year plan that they are then held accountable for. The Board seeks advice from outside experts in plan administration and fund investment to assist Board members in undertaking their oversight responsibilities.

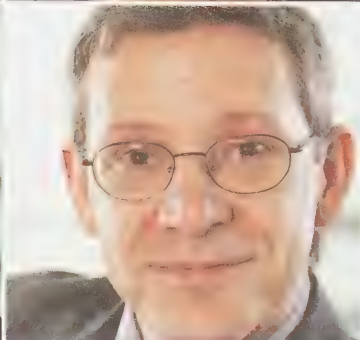
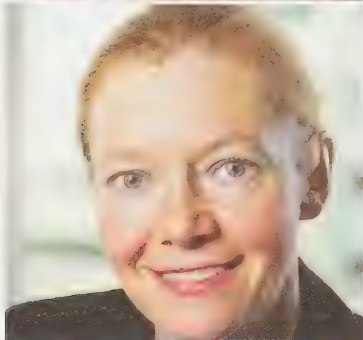
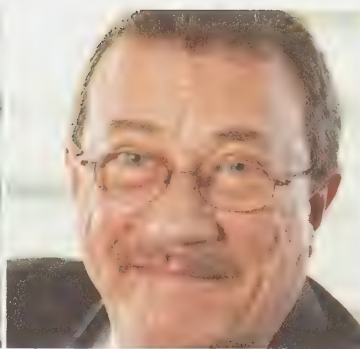
There is a mandatory orientation program for new Board members, and an ongoing continuing education program for members at each regular Board meeting. In 2004, Board members will undertake a director certification program. In addition, each Board member attends relevant seminars and conferences.

Board composition

Board members are appointed by the provincial government, normally for a maximum of two, three-year terms. OMERS is governed by 13 directors – six employee representatives, including one retired member, six employer representatives and one provincial government representative.



Senior Officers	Advisors to the Board
<p>John J. ... President and CEO</p> <p>James J. ... Executive Vice President</p> <p>William J. ... Executive Vice President</p> <p>Robert J. ... Executive Vice President</p> <p>Michael J. ... Executive Vice President</p> <p>David J. ... Executive Vice President</p>	<p>William J. ... Chairman of the Board</p> <p>James J. ... Vice Chairman of the Board</p> <p>Robert J. ... Director</p> <p>Michael J. ... Director</p> <p>David J. ... Director</p> <p>William J. ... Director</p>



Employer Representatives 2003

Bill Rayburn, Chair
County of Middlesex

Marianne Love
Association of Municipalities of Ontario

Frederick Biro
Peel Police Services Board

John Sabo
York Catholic District School Board

Dennis Neethling
Township of East Ferris

Walter Borthwick (until Dec. 2003)
Town of Wasaga Beach

Employee Representatives 2003

Government of Ontario
Representative

The Board is accountable for its actions and results, and reports to plan members and employers on how their contributions are managed and invested. The Board holds two regional meetings a year with plan participants. It maintains contact through consultation with stakeholder groups on key issues, its annual report, its website, regular newsletters, benefit statements, presentations and correspondence.

The Board has five standing committees:

Executive Committee: Responsible for Board affairs, government relations, organizational changes. Serves as compensation sub-committee to handle executive compensation and performance.

Investment Committee: Approves asset mix policy, reviews investment policy and goals, reviews major investment decisions.

Audit Committee: Monitors integrity of financial reporting and effectiveness of internal control systems. Meets with external auditor and reviews audited financial statements and annual operating budget.

Pension Committee: Oversees pension administration policy, reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes and sets service standards.

Management Committee: Responsible for human resource policies, overseeing OMERS strategic plan and major purchases.

In 2003, the Board completed its third bi-annual board effectiveness survey as part of the process of examining and enhancing pension plan governance. The governance sub-committee has stewardship for implementing the recommendations from the survey. As a result of this survey, a number of improvements were made to OMERS governance practices including adoption of a new code of ethics and professional conduct and creation of an internal audit function.

ACTUARIAL COST CERTIFICATE AS AT DECEMBER 31, 2003
FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System (the "Basic Plan") was conducted as at December 31, 2003 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of the Basic Plan as at December 31, 2003 and to examine the adequacy of the ongoing contribution structure to maintain the Basic Plan in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the Basic Plan disclosed total going concern Actuarial Liabilities of \$35,465.855 million in respect of benefits accrued for service to December 31, 2003. The Actuarial Assets at that date were \$35,975.160 million indicating a going concern Actuarial Surplus of \$509.305 million which the Board allocated entirely as a Contribution Deficiency Reserve.

In our opinion, based on the current benefit provisions, the anticipated rates of contributions as prescribed in the OMERS Regulations, together with existing assets and the assumed future investment earnings, will likely fall short of what is needed to provide for all future benefits under the Basic Plan. If actuarial surplus is not available to subsidize future contributions, increases in the contributions may be required in the future.

We have considered the funded position of the Basic Plan, assuming it had been wound up on December 31, 2003. In our opinion, the value of the Plan assets would have been equal to 79% of the actuarial liabilities if the Plan had been wound up on that date.

The net actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2003 (determined using assumptions selected by the Board for purposes of the Consolidated Financial Statements) was \$62.956 million. The full earnings pension benefits are benefits provided in excess of the maximum pension benefits under the Basic Plan and are not fully pre-funded. Contributions, based on the top-tier Basic Plan contribution rates, are payable to the Retirement Compensation Arrangement ("RCA") on the excess of earnings over the maximum contributory earnings recognized under the Basic Plan. It is expected that if contributions to the RCA continue, the annual cash inflow will be sufficient to cover the annual benefit payments for the foreseeable future.

The actuarial valuation of OMERS as at December 31, 2003 was conducted using membership data as at December 31, 2002 and financial information as at December 31, 2003 supplied by the Board. The December 31, 2002 membership was adjusted for the following:

- > membership movements to November 30, 2003,
- > actual inflationary increases to pensions in payment for 2003, and
- > the estimated increase in earnings for 2003.

We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- > the data are sufficient and reliable for the purposes of the valuation,
- > the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- > the methods employed in the valuation are appropriate for the purposes of the valuation.

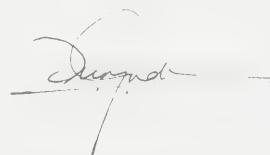
Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted
WATSON WYATT & COMPANY



Ian Markham
Fellow, Canadian Institute of Actuaries
February 19, 2004



Andrew K. Fung, F.S.A.
Fellow, Canadian Institute of Actuaries

responsibilities of management, the actuary and external auditors ::

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the annual report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees.

The Audit Committee assists the Board in discharging its responsibility to approve the annual consolidated financial statements. The Audit Committee meets regularly with both management and the external auditors to review the scope and timing of the audit as well as to review any internal control or financial reporting issues and their resolution. The Audit Committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the OMERS Board. It is the actuary's responsibility to carry out regular valuations of the actuarial liabilities of the System in accordance with accepted actuarial principles and to report thereon to the OMERS Board. The actuary's opinion is set out in the Actuarial Cost Certificate. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases and investment returns) and demographic factors (such as mortality, turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

The external auditors are also appointed by the OMERS Board. Their responsibility is to report to the OMERS Board whether the consolidated financial statements present fairly, in all material respects, the net assets and actuarial value of net assets over actuarial liabilities of the Fund and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Based on my knowledge, the annual report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual report.

Based on my knowledge, the annual financial statements together with the other financial information included in the annual report, fairly present in all material respects the financial condition, results of operations and cash flows of OMERS as of the date and for the periods presented in the annual report.



Paul G. Haggis
President and Chief Executive Officer

Toronto, Canada
February 19, 2004



Wayne Gladstone
*Senior Vice President
Finance and Administration*

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have audited the consolidated statement of net assets and the consolidated statement of actuarial value of net assets over actuarial liabilities of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2003 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets and actuarial value of net assets over actuarial liabilities of the Fund as at December 31, 2003 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

The consolidated financial statements as at December 31, 2002 and for the year then ended were audited by other auditors who expressed an opinion without reservation on those statements in their report dated February 21, 2003.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 19, 2004

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions)

As at December 31,	2003	2002
ASSETS		
Total investments (note 2)	\$ 35,196	\$ 32,940
Amounts due from pending trades	349	240
Goodwill from corporate acquisitions	215	390
Other investment assets (note 6)	279	387
Other assets	44	13
Total Assets	36,083	33,970
LIABILITIES		
Investment liabilities (notes 2 and 4)	2,769	3,325
Due to administered pension funds (note 5)	496	440
Future income taxes	215	284
Amounts payable from pending trades	346	215
Other pension liabilities	164	201
Total Liabilities	3,990	4,465
NET ASSETS (note 8)	\$ 32,093	\$ 29,505

Guarantees, commitments and contingencies are discussed in note 15.

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board



Member



Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions)

For the year ended December 31,	2003	2002
CHANGES DUE TO INVESTMENTS		
Net investment income/(loss) (note 9)	\$ 3,752	\$ (2,245)
Interest on investment liabilities	(170)	(153)
	3,582	(2,398)
CHANGES DUE TO PENSION ACTIVITIES		
Contributions (note 11)	446	47
Benefits (note 12)	(1,356)	(1,302)
	(910)	(1,255)
ADMINISTRATIVE EXPENDITURES (note 13)	(84)	(85)
TOTAL INCREASE/(DECREASE)	2,588	(3,738)
Net assets at beginning of year	29,505	33,243
NET ASSETS AT END OF YEAR	\$ 32,093	\$ 29,505

The accompanying notes to the consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF ACTUARIAL VALUE OF NET ASSETS OVER ACTUARIAL LIABILITIES

(Millions)

As at December 31,	2003	2002
Net Assets	\$ 32,093	\$ 29,505
Less fair value of full earnings pension assets (note 8)	(6)	(5)
Actuarial asset value adjustment (note 8)	3,888	6,048
Actuarial value of net assets (note 8)	35,975	35,548
Actuarial liability (note 8)	35,466	33,034
Net liability of full earnings pension (note 8)	63	58
	35,529	33,092
Excess of actuarial value of net assets over actuarial liabilities (note 8)	\$ 446	\$ 2,456

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Description of the Plan

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan set up under the *Ontario Municipal Employees Retirement System Act (OMERS Act) and Regulation*. The Ontario Municipal Employees Retirement Fund (the Fund) is established in Section 5 of the OMERS Act. The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Customs and Revenue Agency. The Plan is registered under the *Pension Benefits Act (PBA)* of Ontario, Registration #0345983.

a) **Funding** The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act and Regulation*, the *Income Tax Act (Canada)* and the PBA.

b) **Pensions** The normal retirement age (NRA) is 65 years for all OMERS members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings. The OMERS pension is integrated with the Canada Pension Plan.

c) **Death Benefits** Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefit may be paid in the form of a survivor pension, lump sum payment or both.

d) **Withdrawals from the Plan** Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefit from OMERS.

e) **Escalation of Pensions** Pension benefits are protected from inflation through an annual adjustment equal to 100 per cent of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.

f) **Income Taxes** OMERS is a Registered Pension Plan as defined in the *Income Tax Act (Canada)* and as such is not subject to income taxes for contributions or investment income received. The sale of assets in certain subsidiaries may be taxable where OMERS has taken over control of a previously taxable entity.

g) **Retirement Compensation Arrangement** The Retirement Compensation Arrangement (RCA) was established by OMERS to provide supplementary pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada)*.

In accordance with the PBA, the determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund as a separate financial reporting entity independent of the employers and plan members.

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets, the consolidated statement of actuarial value of net assets over actuarial liabilities and the consolidated statement of changes in net assets. Actual results could differ from these estimates.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

OMERS holds certain investments through subsidiaries and various other corporate structures. Subsidiaries are entities controlled by OMERS through ownership of a majority of the voting shares or through control of the Board of Directors. Other corporate structures where there is co-ownership in the economic activities of the entity are jointly controlled by OMERS together with various partners through a proportionate ownership of the voting shares.

The consolidated financial statements include the financial statements of OMERS, its subsidiaries holding real estate, private equity and resource investments, and the proportionate share belonging to OMERS of the assets, liabilities, and operating income of entities where there is co-ownership.

Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Investments

Publicly traded securities are recorded as of the trade date of the transaction. All investment transactions are recorded at the point when the risks and rewards of ownership are transferred.

Investments are stated at fair value. Fair value represents estimates of the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of estimated fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is the unrealized appreciation/depreciation in the fair value of investments and is reflected in net investment income/loss in the consolidated statement of changes in net assets.

Fair values of investments are determined as follows:

- i) Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.
- ii) Bonds, debentures, equities and resource properties are valued at year-end quoted market prices where available. Where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.
- iii) Real estate is composed primarily of income producing properties. Unless recently acquired, properties are valued annually, by independent appraisers in accordance with generally accepted appraisal practices and procedures. This process utilizes discounted future cash flows. In estimating future cash flows certain assumptions are made with respect to future economic conditions and rates of return.

The fair value of any real estate which has been recently acquired is based on the purchase price.

Real estate values may also include amounts representing the value of controlling specific assets or groups of assets. Such values are recognized only on acquisition of control of a corporate entity and are reassessed annually with impairment, if any, reflected in investment income.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- iv) Mortgages and private debt are valued using discounted cash flows based on current market yields for instruments of similar risk and term to maturity.
- v) Derivatives, including swap, futures, option and forward contracts, are valued at year-end market prices determined by quoted market values, where available, or discounted cash flows using current market yields, where quoted market values are not available.

The assessment of fair value of real estate and private equity investment assets is either performed by or concurred with by independent appraisal firms. The actual fair value is within a range of potential values and the value incorporated into OMERS financial statements is within this range.

Investment income/loss includes interest, dividends and operating income/loss from real estate and other subsidiaries, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Investment Liabilities

Investment liabilities include debentures, mortgages and other debt obligations, primarily related to investments in real estate. The fair value of liabilities is estimated using discounted cash flows based on current market yields.

Non-Investment Assets and Liabilities

The fair value of amounts due from pending trades (other than unrealized gains on derivative contracts), other investment assets, other assets, amounts payable from pending trades (other than unrealized losses on derivative contracts) and other investment liabilities including real estate payables and real estate deferred revenue approximate their carrying amounts due to their short-term nature. The value of amounts due to administered pension funds and other pension liabilities reflect the contractual liability of OMERS as at the financial statement date.

Foreign Currency Translation

Certain OMERS investments are denominated in various foreign currencies. The fair values of such investments are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss is recognized in realized gains/losses on disposal of investments.

Future Income Taxes

Future income taxes which arise in taxable subsidiaries are calculated based on the difference between the fair value of assets and liabilities acquired and the related tax basis expected to exist when the asset is realized or the liability is settled.

Goodwill from Corporate Acquisitions

Goodwill arises on the acquisition of control of a corporate entity. It is calculated as the difference between the cost of an investment and the fair value of tangible and intangible net assets acquired and represents the cost of assuming control of those net assets. Goodwill is not amortized, but in each year subsequent to the acquisition, the value is reassessed and impairment, if any, is reflected in investment income/loss.

Accrued Pension Benefits

The value of accrued pension benefits is based on an actuarial valuation prepared by an independent firm of actuaries. This obligation is measured using actuarial assumptions and methods adopted by management as long-term best estimates of OMERS future experience.

Actuarial Asset Value Adjustment

The actuarial value of assets as at the reporting date has been determined using a formula that smoothes the effect of changes in fair value of net assets over a five-year period. The actuarial asset value adjustment reflects the portion of gains or losses not yet recognized for purposes of determining the actuarial net assets available for benefits.

Contributions

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence, conversion of normal retirement age and contract adjustments and transfers from other pension plans are recorded when received.

Benefits

Benefit payments to retired members, commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits are recorded as part of accrued actuarial liabilities.

NOTE 2: INVESTMENTS

Investments before allocating the effect of derivative contracts and investment-related assets and liabilities are as follows:

(Millions)	2003		2002	
	Fair Value	Cost	Fair Value	Cost
INTEREST-BEARING INVESTMENTS				
Cash and short-term deposits	\$ 5,420	\$ 5,420	\$ 4,253	\$ 4,253
Canadian bonds and debentures	5,121	4,932	5,018	4,802
Real return bonds	872	736	796	736
Private debt	445	428	357	339
Mortgages	1,153	1,083	1,119	1,063
	\$ 13,011	\$ 12,599	\$ 11,543	\$ 11,193
ABSOLUTE RETURN INVESTMENTS				
	\$ 269	\$ 294	\$ —	\$ —
EQUITY INVESTMENTS				
Canadian equities	6,090	4,112	5,750	4,870
Non-Canadian equities	7,166	6,552	6,530	6,977
Resource properties	94	91	148	108
Canadian private equities	1,384	1,595	712	711
Non-Canadian private equities	472	617	510	514
	\$ 15,206	\$ 12,967	\$ 13,650	\$ 13,180
REAL ESTATE INVESTMENTS				
	\$ 6,710	\$ 6,811	\$ 7,747	\$ 7,689
TOTAL INVESTMENTS				
	\$ 35,196	\$ 32,671	\$ 32,940	\$ 32,062
INVESTMENT-RELATED ASSETS				
Amounts due from pending trades	349	79	240	108
Goodwill from corporate acquisitions	215	215	390	390
Other investment assets (note 6)	279	279	387	387
	\$ 36,039	\$ 33,244	\$ 33,957	\$ 32,947
INVESTMENT-RELATED LIABILITIES				
Investment liabilities (note 4)	(2,769)	(2,672)	(3,325)	(3,258)
Future income taxes	(215)	(215)	(284)	(284)
Amounts payable from pending trades	(346)	(40)	(215)	(67)
Net investment assets	\$ 32,709	\$ 30,317	\$ 30,133	\$ 29,338

NOTE 2: INVESTMENTS CONTINUED

At December 31, 2003, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investments:

(\$ Millions)	2003 Aggregate			2002 Aggregate		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Canadian interest-bearing investments	2	\$ 733	\$ 741	1	\$ 481	\$ 479
Equities and real estate properties	3	1,362	1,223	4	1,396	1,255
	5	\$ 2,095	\$ 1,964	5	\$ 1,877	\$ 1,734

Canadian securities where the individual issue has a cost or fair value exceeding one per cent of the fair value or cost of total investments are comprised of interest-bearing securities issued by the Government of Canada, equity securities issued by Bruce Power and real estate ownership interest in the Royal Bank Plaza and Yorkdale Shopping Centre properties, both of which are located in Ontario.

OMERS holds a number of investments through entities involving joint venture and co-ownership arrangements. The fair value of OMERS proportionate share in these assets was \$3,524 million at December 31, 2003 (2002 – \$3,741 million). OMERS share of the net income earned by these entities was \$275 million for the year ended December 31, 2003 (2002 – \$268 million) and is included in net investment income/loss.

OMERS has guaranteed certain of the obligations of the entities where it is involved on a co-ownership basis and, in certain cases, is contingently liable for the obligations of its associates. The assets of these entities are available and are sufficient for the purpose of satisfying such obligations.

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee as well as receiving securities of equal or superior credit quality as collateral. As at December 31, 2003, securities with an estimated fair value of \$4,143 million (2002 – \$2,856 million) were loaned out, while securities received and contractually receivable as collateral had an estimated fair value of \$4,240 million (2002 – \$2,935 million).

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate volatility, market and credit risk. OMERS has set formal policies and procedures that establish an asset mix among equity, fixed income and real estate investments, require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 3).

FOREIGN CURRENCY RISK

Foreign currency exposure arises from the Fund holding investments denominated in currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian Dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. OMERS has put in place a currency overlay program whereby a portion of OMERS foreign currency exposure is converted back into Canadian Dollar exposure through the use of foreign exchange forward contracts. The Fund's total currency exposure, impact of the currency overlay program and the net currency exposure as at December 31 are as follows:

CURRENCY EXPOSURE

(Millions – Canadian dollar equivalent)	2003			2002		
	Total	Currency Overlay	Net	Total	Currency Overlay	Net
Canada	\$ 20,489	\$ 5,091	\$ 25,580	\$ 19,337	\$ 4,947	\$ 24,284
United States of America	6,363	(3,170)	3,193	5,680	(2,568)	3,112
Euro zone ¹	1,862	(817)	1,045	1,562	(808)	754
United Kingdom	1,246	(532)	714	1,261	(620)	641
Japan	1,029	(352)	677	941	(453)	488
Other Pacific	737	(173)	564	424	(183)	241
Other Western Europe	616	(201)	415	668	(264)	404
Emerging Markets	367	154	521	260	(51)	209
	\$ 32,709	\$ —	\$ 32,709	\$ 30,133	\$ —	\$ 30,133

The above table allocates the total and net currency exposure of Canadian assets backing derivatives to the currency of the underlying asset or index from which the derivative contract derives its value.

¹Euro zone includes the eleven member countries using the Euro currency.

INTEREST RATE RISK

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuation of interest rates. The risk arises from the potential variation in the timing and amount of cash flows related to the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long duration of pension benefits, OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are affected more by equity markets and short-term changes in interest rates. The fixed income portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

Term to maturity classifications of interest-bearing investments, based upon the contractual maturity of the securities, are as follows:

(Millions)	2003					2002	
	Term to Maturity				Average Effective Yield	Total	Average Effective Yield
	Within 1 Year	1 to 5 Years	Over 5 years	Total			
Cash and short-term deposits	\$ 5,420	\$ —	\$ —	\$ 5,420	2.72%	\$ 4,253	2.84%
Canadian bonds and debentures	550	1,588	2,983	5,121	4.34%	5,018	4.35%
Real return bonds	—	—	872	872	2.78%	796	3.30%
Private debt	5	227	213	445	4.91%	357	7.76%
Mortgages	101	419	633	1,153	5.16%	1,119	5.42%
Total	\$ 6,076	\$ 2,234	\$ 4,701	\$ 13,011	3.65%	\$ 11,543	3.94%

Average effective yield represents the weighted average rate required to discount future cash flows to current market value.

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt comprises 27.2 per cent (2002 – 29.5 per cent) of the fair market value of Canadian bonds and debentures (including real return bonds).

NOTE 2: INVESTMENTS CONTINUED

MARKET RISK

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market prices, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS policy is to invest in a diversified portfolio of investments, based on criteria established in the Statement of Investment Policies and Procedures, and to utilize derivative financial instruments, which are designed to mitigate the impact of market risk.

CREDIT RISK

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 3.

NOTE 3: DERIVATIVE FINANCIAL INSTRUMENTS

The Fund uses derivative financial instruments, when appropriate, in the administration of its asset mix management and to assist in the management of financial risks, including interest rate volatility and foreign exchange risks. In certain circumstances, derivatives are used to increase returns or to replicate investments synthetically.

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or interest or exchange rates. OMERS enters into derivative investment activities in combination with the cash and fixed income securities portfolios. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets. Types of contracts currently entered into by OMERS include:

Swaps, which are contractual agreements between two parties to exchange fixed and/or floating rate payments based on a notional value.

Forwards and futures, which are contractual agreements to either buy or sell a specified currency or financial instrument at a specific price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Options, which are contractual agreements by which the seller gives the right but not the obligation to a buyer to purchase (or sell) a financial instrument on or before a specified date at a predetermined price. Options may be exchange traded or transacted in the over-the-counter market.

Futures and exchange traded options are transacted in standardized amounts on regulated exchanges and are subject to daily cash margining.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;

enters into derivatives only on an unlevered basis; and

arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or quarterly prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- > **Notional value:** represents the amount to which a rate or price is applied in order to calculate the exchange of cash flows.
- > **Fair value:** Derivative contracts are recorded in the consolidated statement of net assets at fair value. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.
- > **Replacement cost:** represents the loss to which OMERS is exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral which may be held.

(Millions)	2003				2002		
	Fair Value				Fair Value		
	Notional Value	Assets	Liabilities	Credit Risk Replacement Cost	Notional Value	Assets	Liabilities
INTEREST RATE CONTRACTS							
Interest rate swap contracts	\$ 1,152	\$ 14	\$ (10)	\$ 14	\$ 923	\$ 3	\$ (10)
Bond index swap contracts	594	7	—	7	578	7	—
Bond options – purchased	200	6	—	6	—	—	—
Bond forward contracts	80	—	—	—	—	—	—
	2,026	27	(10)	27	1,501	10	(10)
EQUITY CONTRACTS							
Equity index futures contracts	4,720	12	—	12	3,777	11	—
Equity index swap contracts	849	30	—	30	982	44	—
Equity swap contracts	—	—	—	—	70	2	—
Equity options – written	42	—	(1)	—	22	—	(1)
	5,611	42	(1)	42	4,851	57	(1)
Foreign exchange forward contracts	18,093	270	(306)	270	10,530	132	(148)
Total	\$ 25,730	\$ 339	\$ (317)	\$ 339	\$ 16,882	\$ 199	\$ (159)

The term to maturity based on notional value is as follows:

(Millions)	2003	2002
Under 1 year	\$ 25,049	\$ 16,751
1 to 5 years	361	35
Over 5 years	320	96
	\$ 25,730	\$ 16,882

NOTE 4: INVESTMENT LIABILITIES

Investment liabilities are comprised of the following:

(Millions)	2003	2002
Real estate investment liabilities (note 7)	\$ 2,511	\$ 2,999
Real estate payables (note 7)	155	219
Real estate deferred revenue (note 7)	98	107
Real estate-related liabilities	2,764	3,325
Other investment liabilities	5	—
	\$ 2,769	\$ 3,325

Real estate investment liabilities are comprised of:

Mortgages with various terms to maturity to 2025 with each mortgage secured by a specific real estate property or properties.

OMERS Realty Corporation Series A 5.48% Debentures issued November 27th, 2002, maturing December 31, 2012.

OMERS Realty Corporation Series B 4.69% Debentures issued April 25th, 2003 maturing June 2, 2008.

OMERS Realty Corporation Commercial Paper with maturities as at December 31 up to March 16, 2004.

Other debt secured by Government of Canada Bonds.

Other unsecured debt.

The rights of OMERS Realty Corporation debenture holders are subordinate to the claims of OMERS pension liabilities.

Long-term debt fair value, cost and weighted average interest rates are as follows:

(Millions)	2003		2003 Weighted Average Interest Rate	2002		2002 Weighted Average Interest Rate
	Fair Value	Cost		Fair Value	Cost	
Mortgages	\$ 1,192	\$ 1,125	8.39%	\$ 1,656	\$ 1,598	7.45%
OMERS Realty Corporation						
Series A debentures	516	500	5.48%	509	500	5.48%
Series B debentures	514	500	4.69%	—	—	—
Commercial paper	285	285	2.71%	—	—	—
Other secured debt	—	—	—	827	827	1.60%
Unsecured debt	4	4	7.51%	7	7	6.95%
Total	\$ 2,511	\$ 2,414	6.39%	\$ 2,999	\$ 2,932	5.50%

Scheduled principal repayments for each of the five years subsequent to December 31, 2003 and thereafter are as follows:

(Millions)	
2004	\$ 401
2005	96
2006	52
2007	130
2008	246
Thereafter	1,489
Total	\$ 2,414

NOTE 5: DUE TO ADMINISTERED PENSION FUNDS

The managed pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor Fund and are credited with income/loss based upon their proportionate share of the investments of the Fund, at fair value. The Ontario Municipal Employees Retirement Board is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

NOTE 6: OTHER INVESTMENT ASSETS

Other assets are comprised of accrued income, real estate operational accounts receivable and deferred assets (including prepaid property taxes and insurance, and tenant recoveries for deferred charges relating to real estate).

(Millions)	2003	2002
Accrued income	\$ 90	\$ 114
Real estate receivables	84	87
Real estate deferred assets	105	186
	\$ 279	\$ 387

NOTE 7: INVESTMENT IN REAL ESTATE

The asset categories related to OMERS investment in real estate are as follows:

(Millions)	2003		2002	
	Fair Value	Cost	Fair Value	Cost
ASSETS				
Investments (note 2)	\$ 6,710	\$ 6,811	\$ 7,747	\$ 7,689
Goodwill from corporate acquisitions	215	215	390	390
Real estate receivables (note 6)	84	84	87	87
Real estate deferred assets (note 6)	105	105	186	186
Total real estate assets	\$ 7,114	\$ 7,215	\$ 8,410	\$ 8,352
LIABILITIES				
Real estate long-term liabilities (note 4)	\$ 2,511	\$ 2,414	\$ 2,999	\$ 2,932
Real estate payables (note 4)	155	155	219	219
Real estate deferred revenue (note 4)	98	98	107	107
Real estate investment liabilities	\$ 2,764	\$ 2,667	\$ 3,325	\$ 3,258
Future income taxes	215	215	284	284
Total real estate liabilities	\$ 2,979	\$ 2,882	\$ 3,609	\$ 3,542
Net investment in real estate	\$ 4,135	\$ 4,333	\$ 4,801	\$ 4,810

A goodwill impairment was recorded in 2003 to recognize changes in the market and OMERS business operations.

NOTE 8: NET ASSETS

The excess of actuarial value of net assets over actuarial liabilities is calculated net of the liability of the full earnings benefit. The full earnings pension benefit was set up within the *OMERS Act and Regulation* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act (Canada)*. These excess benefits are partially funded through the use of a Retirement Compensation Arrangement.

NOTE 8: NET ASSETS CONTINUED

ACTUARIAL VALUE OF NET ASSETS

The actuarial value of net assets is established such that investment returns above or below the long-term return assumption (currently set as 7.25%) are deferred and are smoothed over 5 years into actuarial assets. This is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term volatility and to stabilize contributions. As at December 31, 2003, OMERS has \$3,888 million in investment losses in a smoothing reserve. The following schedule outlines the composition of the smoothing reserve (millions) as at December 31:

Smoothing Reserve* as at 12/31/2003	Unrecognized Gains/(Losses) to be recognized in				Smoothing Reserve* as at 12/31/2002
	2004	2005	2006	2007	
1999	\$ —	\$ —	\$ —	\$ —	\$ 575
2000	(119)	(128)	—	—	(223)
2001	(1,832)	(982)	(1,054)	—	(2,562)
2002	(3,087)	(1,104)	(1,184)	(1,269)	(3,838)
2003	1,150	308	331	354	—
	\$ (3,888)	\$ (1,906)	\$ (1,907)	\$ (915)	\$ (6,048)

* This smoothing reserve represents the present value of previous years' gains/(losses) that will be recognized over the next 4 years and this recognition could result in a reported deficit in the future. The smoothing reserve in future years will be impacted by investment returns in future years.

ACCRUED PENSION BENEFITS

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using the same actuarial assumptions and methods adopted by the OMERS Board for setting the long-term funding target. Since there is no intention of terminating the obligations for the foreseeable future, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, the actuarial basis may also change, which could cause a material change in the actuarial present value of accrued benefits.

The projected accrued benefit method (pro-rated on service) is used for the actuarial valuation of OMERS. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages. However, for a group with a stable demographic profile, annual costs will tend to remain stable when expressed as a percentage of earnings.

The following actuarial assumptions have been used in the actuarial valuation of OMERS:

	2003	2002
Assumed rate of inflation	3.0%	3.0%
Assumed rate of pensionable earnings increases	4.5%	4.5%
Assumed actuarial rate of return on plan assets	7.25%	7.25%

As a pension plan which provides 100% inflation protection, OMERS accrued benefit obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases which impacts future benefits and the assumed real rate of return on plan assets which is used in the discounting of these future benefits. A 50 basis point change in the real rates for a particular assumption (with no change in other assumptions) would have the following approximate effects on the accrued benefit obligation:

50 basis point decrease	Effect on Accrued Benefit Obligation
Real pensionable earnings assumption	-2.4%
Real return on plan assets	+8.0%

The extrapolation of the accrued benefit obligation to December 31, 2003, which follows, takes account of known membership movement up to November 30, 2003, actual inflationary increases to pensions in payment for 2003, and the estimated earnings increase for 2003 which is based partly on a survey of OMERS larger participating employers. The 2002 comparative amounts have been restated to reflect the actuarial valuation conducted as of December 31, 2002.

The valuation includes a Contribution Liability, which was developed in accordance with accepted actuarial practice to stabilize contributions. It is determined as the present value of the temporary increase in the annual normal actuarial cost over the next 22 years caused by the Baby Boomers aging through the OMERS active membership. This Contribution Liability is subtracted from the actuarial value of net assets before the determination of surplus and the associated allocation of reserves.

(Millions)	2003	2002
BASIC PLAN		
Fair value of net assets at end of year	\$ 32,093	\$ 29,505
Less fair value of full earnings assets	(6)	(5)
Actuarial value adjustment	3,888	6,048
Actuarial value of net assets at end of year	35,975	35,548
Accrued benefit obligation at beginning of year	32,624	30,572
Interest accrued on benefits	2,388	2,333
Benefits accrued	1,266	1,172
Benefits paid	(1,355)	(1,301)
Plan amendments/Changes in Legislation	—	(27)
Experience and other losses	103	(125)
Accrued benefit obligation at end of year	35,026	32,624
Contribution liability	440	410
Total actuarial liabilities	35,466	33,034
FULL EARNINGS PLAN		
Full earnings pension assets	6	5
Full earnings pension liability	69	63
Net liability of full earnings pension	63	58
	35,529	33,092
Excess of actuarial value of net assets over actuarial liabilities	\$ 446	\$ 2,456

The Board normally allocates a portion of the excess of actuarial value of net assets over the total actuarial liabilities to a Contribution Deficiency Reserve to assist in the management of any potential future contribution shortfalls. The entire excess of actuarial value of net assets over the actuarial liabilities as at December 31, 2003 of \$446 million, though not sufficient to completely cover the present value of the potential future contribution short falls, is reserved for this purpose (2002 – \$1,110 million). A further allocation to a Funding Stabilization Reserve may also be made as a cushion against volatile investment returns, or a surprise change in the liabilities through demographic variations such as accelerated early retirements. The excess of actuarial value of net assets over the actuarial liabilities as at December 31, 2003 was insufficient to warrant such an allocation (2002 – \$1,346 million).

The plan is amended effective January 1, 2004 to restructure the contribution rates to better reflect the actuarial cost of benefits being accrued by members. Specifically, the contribution rates will be as follows:

Earnings	NRA 60	NRA 65
Up to YMPE*	7.3%	6.0%
Above YMPE*	9.8%	8.8%

*YMPE stands for Year's Maximum Pensionable Earnings which is the maximum amount of your earnings on which you contribute to the Canadian Pension Plan. For 2004, YMPE is set to be \$40,500.

NOTE 8: NET ASSETS CONTINUED

In addition, the earliest retirement eligibility age will revert to 10 years prior to the normal retirement age in 2004. Similarly, the early retirement reduction factor for members not eligible for unreduced early retirement pensions will revert to 5.0% per year in 2004. The years of age plus service required for an unreduced early retirement pension will be as follows:

Year	NRA 60	NRA 65
2004	80	85
2005	85	90

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented above on the going concern basis, consistent with other areas of the financial statements. Under the *Pension Benefits Act*, a solvency (hypothetical windup) valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation excludes the full earnings pension benefits and assumes a liquidation scenario. As permitted by the *Pension Benefits Act*, the solvency valuation uses the fair value of assets and a liability discount rate based on long-term nominal bond yields at the valuation date. Under this method, no allowance is made for the costs associated with future cost of living increases.

The actuarial present value of accrued pension benefits under the solvency valuation, excluding the full earnings pension benefits, was estimated to be \$28,547 million as at December 31, 2003 (2002 – \$27,761 million). As at December 31, 2003, the fair value of net assets, excluding the full earnings assets and allowing for a provision for expenses on wind up, was \$32,026 million (2002 – \$29,439 million).

NOTE 9: NET INVESTMENT INCOME/(LOSS)

a) Net Investment Income/(Loss) Before Allocating the Effect of Derivative Contracts

Investment income/(loss), before giving effect to derivative contracts and before allocating the realized and unrealized gains/(losses) for the period ended December 31, is presented below. Income from assets backing derivative financial instruments is reported in the particular backing asset category. Investment operating expenses of \$24 million (2002 – \$13 million) are netted against the particular portfolio where the costs were incurred. Realized and unrealized income/(loss) from derivative financial instruments is \$1,371 million (2002 – \$(1,120) million).

(Millions)	2003	2002
INCOME		
INTEREST-BEARING INVESTMENTS		
Short-term deposits	\$ 115	\$ 87
Canadian bonds & debentures	296	389
Real return bonds	30	34
Private debt	29	25
Mortgages	77	85
	547	620
EQUITY INVESTMENTS		
Canadian equities	108	104
Non-Canadian equities	167	167
Resource properties	54	14
Canadian private equities	73	19
	402	304
REAL ESTATE INVESTMENTS	548	573
Less investment management fees ¹	94	55
NET GAIN/(LOSS) on investments and derivative financial instruments ²	2,400	(3,715)
	3,803	(2,273)
Less income/(loss) credited to:		
Administered pension funds	53	(35)
Supplementary retirement benefits	(2)	7
Net investment income/(loss)	\$ 3,752	\$ (2,245)

¹Investment management fees relate primarily to private equity and real estate investments.

²Includes net realized gain/(loss) of \$803 million (2002 – loss of \$1,705 million).

b) Investment Income/(Loss) by Major Asset Class

Investment income/(loss) by major asset class, after allocating management fees and realized and unrealized gains and losses on investments including derivative contracts, is as follows:

(Millions)	2003	2002
Interest-bearing investments	\$ 668	\$ 868
Absolute return investments	(26)	—
Equity investments		
Canadian	1,321	(717)
Non-Canadian	1,784	(2,669)
Real estate investments	56	245
	\$ 3,803	\$ (2,273)

NOTE 10: INVESTMENT RETURNS AND RELATED BENCHMARK RETURNS

	2003		2002	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Canadian fixed income	7.0%	6.5%	9.6%	8.3%
Canadian equities	19.4%	25.6%	-9.2%	-11.2%
Foreign equities	17.8%	17.9%	-19.9%	-21.0%
Real estate	-3.7%	7.1%	1.3%	4.6%
Real return bonds	13.4%	13.3%	15.3%	15.3%
Total Fund	12.7%	15.5%	-7.1%	-7.4%

Investment returns have been calculated in accordance with industry standards.

The performance of each portfolio is measured against an objective benchmark that acts as a proxy for each market. Benchmarks are aggregated and weighted to conform with the fund asset mix policy to provide a benchmark for the total fund.

NOTE 11: CONTRIBUTIONS

(Millions)	2003	2002
Basic ¹	\$ 394	\$ —
Transfers from other pension plans	19	20
Other contributions ²	33	27
	\$ 446	\$ 47

¹The contribution holiday that began in August 1998 for both members and employers ended December 31, 2002. For the year 2003, contributions resumed at one third the normal rate.

²Other contributions include payments for leaves of absence, conversion of normal retirement age and contract adjustments.

NOTE 12: BENEFITS

(Millions)	2003	2002
Members' pensions	\$ 1,246	\$ 1,153
Commutated value payments and members' contributions plus interest refunded	81	102
Transfers to other pension plans	29	47
	\$ 1,356	\$ 1,302

NOTE 13: ADMINISTRATIVE EXPENDITURES

(Millions)	2003	2002
Personnel services	\$ 41	\$ 43
System development and other purchased services	28	26
Premises and equipment	10	11
Professional services ¹	3	3
Transport & communication	2	2
	\$ 84	\$ 85

¹OMERS corporate professional services includes actuarial costs of \$0.5 million (2002 – \$0.9 million), audit costs of \$0.3 million (2002 – \$0.4 million) and legal costs of \$0.9 million (2002 – \$1.0 million).

NOTE 14: EXECUTIVE COMPENSATION

The compensation amounts for 2003 and 2002 are included under personnel services in note 13. The table below represents disclosure of base salary, annual bonus and other compensation earned in 2001, 2002 and 2003 by the Chief Executive Officer and the four other members of the senior executive team.

Name and Principal Position	Year	Base Salary	Bonus ¹	Other Compensation ²	Taxable Benefits
Paul Haggis ³ President and CEO	2003	\$ 100,962	\$ —	\$ 3,271	\$ 532
Dale Richmond ⁴ President and CEO	2003	\$ 339,696	\$ 117,644	\$ —	\$ 24,364
	2002	328,503	113,567	—	30,695
	2001	319,729	99,359	15,380	29,254
Michael Beswick Senior Vice President	2003	\$ 226,042	\$ 72,028	\$ 6,562	\$ 15,488
	2002	211,730	158,853	10,577	16,768
	2001	174,904	55,078	8,510	17,738
Wayne Gladstone Senior Vice President	2003	\$ 230,080	\$ 69,828	\$ 21,907	\$ 13,440
	2002	217,846	67,600	10,577	13,511
	2001	193,658	56,320	9,615	13,281
Tom Gunn ⁴ Senior Vice President	2003	\$ 291,269	\$ 362,954	\$ 9,626	\$ 2,315
	2002	295,761	228,575	23,893	1,381
	2001	284,864	197,186	30,744	1,332
Debbie Oakley Senior Vice President	2003	\$ 190,080	\$ 59,644	\$ 10,000	\$ 1,056
	2002	189,385	50,685	9,600	837
	2001	157,318	8,313	7,212	11,680

¹ Based on prior year's performance.

² Includes vacation cash-in and car allowance, but excludes retiring allowance.

³ Joined OMERS in 2003.

⁴ Retired from OMERS in 2003.

NOTE 15: GUARANTEES, COMMITMENTS & CONTINGENCIES

As part of normal business operations, OMERS enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments may include but are not limited to investments in mortgages, real estate and limited partnership agreements. As at December 31, 2003, these commitments totalled \$2.8 billion (2002 – \$3.2 billion). Guarantees provided as part of investment transactions have a current estimated value of \$327 million (2002 – nil).

NOTE 16: RELATED PARTY TRANSACTIONS

OMERS has entered into an asset management services agreement with an investee (the “Asset Manager”) in the asset management business, in which OMERS owns a minority interest. Effective June 2002, OMERS sold the asset management business of OMERS Realty Corporation to the investee for cash consideration of \$11 million.

The Asset Manager provides management services for assets that total \$7,045 million as at December 31, 2003. Payments to the Asset Manager during the period were \$42 million and, as at December 31, 2003, \$4 million was due to the Asset Manager and has been included in other investment liabilities.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10 year review of financial data ::

(\$ Millions)	2003	2002	2001	2000	1999	1998	1997	1996	1995	1994
NET ASSETS AT MARKET VALUE ¹										
Investment Assets										
Debt	13,011	11,543	13,686	13,525	11,566	12,947	10,625	8,554	6,737	6,560
Absolute return investments	269	—	—	—	—	—	—	—	—	—
Equity	15,206	13,650	15,379	18,544	19,586	15,587	16,022	14,612	12,149	11,935
Real estate	6,710	7,747	8,181	4,707	4,126	3,995	2,729	2,450	2,391	2,151
	35,196	32,940	37,246	36,776	35,278	32,529	29,376	25,616	21,277	20,646
Other investment assets	843	1,017	998	698	493	297	244	270	381	388
Investment liabilities	(3,330)	(3,824)	(4,323)	(921)	(280)	(916)	(102)	(156)	(96)	(181)
Net investment assets	32,709	30,133	33,921	36,553	35,491	31,910	29,518	25,730	21,562	20,853
Non investment assets/(liabilities)										
Supplementary agreements	(143)	(172)	(165)	(148)	(131)	(116)	(110)	(121)	(120)	(134)
Administered pension plans	(496)	(440)	(487)	(528)	(502)	(437)	(395)	(341)	(345)	(2,463)
Other assets/(liabilities)	23	(16)	(26)	(2)	72	23	95	110	116	133
Net assets	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378	21,213	18,389
INVESTMENT INCOME ^{2,3}										
Basic Plan	3,752	(2,245)	(1,335)	2,053	4,598	2,867	3,692	4,074	2,625	310
Supplementary benefit										
agreements	(2)	7	17	16	16	13	11	9	11	13
Administered pension plans	53	(35)	(21)	31	69	39	51	55	381	44
	3,803	(2,273)	(1,339)	2,100	4,683	2,919	3,754	4,138	3,017	367
CONTRIBUTIONS RECEIVED FOR ¹										
Basic plan	394	—	—	—	—	364	869	874	869	870
Basic plan unfunded liabilities	52	47	36	30	27	8	21	8	6	9
Supplementary agreements	—	—	—	—	—	—	—	—	1	—
	446	47	36	30	27	372	890	882	876	879
PAYMENTS TO MEMBERS ¹										
Pensions paid	1,246	1,153	1,034	916	817	761	699	661	570	491
Contributions and										
interest refunded	81	102	125	121	178	149	104	89	67	51
Transfers to other plans	29	47	34	8	10	10	9	6	6	4
	1,356	1,302	1,193	1,045	1,005	920	812	756	643	546
EXPENDITURES ¹										
Administration	84	85	85	73	70	47	40	35	33	33
Investment operating and										
manager fees	118	68	32	34	28	30	24	25	22	18
	202	153	117	107	98	77	64	60	55	51
TOTAL FUND ANNUAL RATE OF RETURN										
Time weighted return on										
market value	12.7%	-7.1%	-3.4%	6.2%	15.2%	10.1%	14.8%	19.3%	14.2%	1.8%
Benchmark	15.5%	-7.4%	-4.2%	4.1%	14.7%	10.7%	15.1%	18.0%	16.1%	1.1%
Funding Requirement	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%	5.0%	6.4%	6.0%	4.5%

¹As at December 31.

²For the year ended December 31.

³Includes realized and unrealized gains.

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Discontinued Program

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Plan for the Future



OMERS

Annual Report 2004





Plan for the Future

RESPONSIBLE

We are custodians of the pension assets for 355,000 Ontarians. They rely on us to protect their pensions.

ACCOUNTABLE

We measure and report on our performance in increasing the value of these assets and serving our members.

SUSTAINABLE

We take a very long-term view. Everything we do is to enable us to keep our pension commitment to our members.



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FINANCIAL HIGHLIGHTS

NET INVESTMENT ASSET GROWTH FROM 1974

Market Value (\$ Billions)



ASSET MIX

(as at December 31, 2004)

Net Investment Assets



PUBLIC MARKETS	81.6%
PRIVATE EQUITY	4.1%
INFRASTRUCTURE	3.5%
REAL ESTATE	10.8%

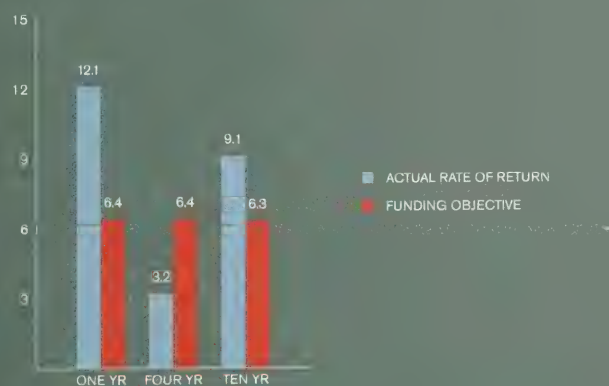
GROWTH IN PENSION PAYROLL

(\$ Millions)



RATE OF RETURN VS. FUNDING OBJECTIVE

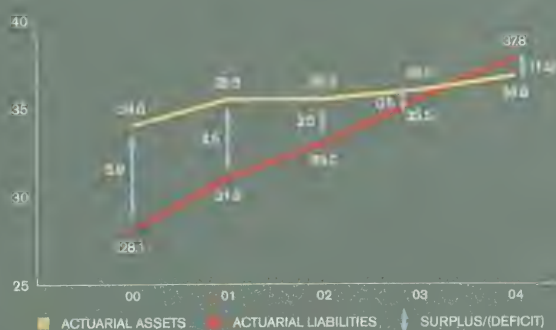
(%)



ACTUARIAL ASSETS AND LIABILITIES

(as at December 31)

Market Value (\$ Billions)



DEFINING RESULTS

OUR COMMITMENT

At OMERS we have one clear and overriding commitment: paying the pensions of our current and our future retirees. Everything we do is to enable us to keep this commitment. For many of our members, their OMERS pension plan is the largest financial asset they hold. They rely on us to protect and enhance it.

We have nearly 97,000 retirees who receive about \$1.4 billion a year in pension payments and we have 258,000 members who depend on us for their future retirement income. Two decades from now, the number of OMERS retirees is expected to increase to about 200,000 and the pension payments they receive will total an estimated \$6.4 billion annually. To meet OMERS future obligations, our net assets will need to grow from the current \$36 billion to about \$124 billion in 2025.

The financial strength we will need to meet these requirements drives our day-to-day focus at OMERS: we must ensure not only that current pensions are paid in full and on time, but constantly work to prepare for the day when today's new employees become OMERS new retirees.

Over the past two years, we have implemented a number of key steps to put in place the operating principles that will enable us to continue to fulfill our promise over the long-term horizon in which pension plans operate.

OUR OPERATING PRINCIPLES

1

ENSURE THE QUALITY OF OUR BALANCE SHEET.

- Our assets are prudently invested and delivering a return that meets our needs within an appropriate risk profile.
- Our assets match our liabilities.
- Our assets and our liabilities are fairly valued.

2

ENSURE THAT THE RIGHT ORGANIZATIONAL STRUCTURE - WITH CLEAR LINES OF ACCOUNTABILITY - IS IN PLACE TO MEET OUR INVESTMENT AND PENSION OBJECTIVES.

- Our organization is aligned for accountability and clarity of purpose.
- Our organizational structure allows active, hands-on management of our assets.
- Our organizational design provides value for the cost.
- Everyone at OMERS knows what is expected of them and of others.

3

ENSURE THAT OUR CUSTOMERS' NEEDS ARE UNDERSTOOD AND MET.

- We understand the needs of our customers – our active and retired members, employers and stakeholders.
- We deliver what they want, where and when they want it, and at a price that represents value for them.

4

ENSURE WE HAVE THE RIGHT PEOPLE IN THE RIGHT JOBS.

- Our business is organized around our primary asset: individuals making decisions.
- Our people are motivated, engaged and have the knowledge they need to achieve our aims.
- Our compensation programs reward performance.

5

ENSURE WE HAVE ACCESS TO THE RIGHT MANAGEMENT INFORMATION

- We have the information we need to manage our business.
- Our management information is timely, accurate and actionable.
- This information is universally understood throughout our organization.



OUR INVESTMENT PERFORMANCE IN 2004

Our overall rate of return was 12.1 per cent, exceeding the plan's funding requirement of 6.4 per cent, which is comprised of 4.25 per cent real return plus the rate of inflation. Our net investment earnings of \$3.7 billion in 2004 were more than sufficient to meet our funding requirements for the year and net assets grew by \$3.6 billion, an increase of 11 per cent, to total \$35.7 billion by year-end.

OMERS assets remain secure. We continue to deliver competitive pensions and benefits that provide good value at a reasonable cost.

THE INVESTMENT ENVIRONMENT FOR PENSION FUNDS

With this kind of performance it might seem incongruous that OMERS funding status went from a modest actuarial surplus of about \$500 million at the end of 2003 to a funding deficit of just under \$1 billion at year-end 2004. The answer lies in the investment environment for pension funds.

A study entitled "Addressing the Pensions Dilemma in Canada," undertaken by the Certified General Accountants Association of Canada, concluded that at year-end 2003, 59 per cent of Canadian defined benefit pension plans were in deficit to a total amount of \$160 billion. The average overall funding status of the plans (that is, the value of net assets compared to promised benefits) was 83 per cent, compared to OMERS at 94 per cent.

The main reasons for the deficits, the study concluded, were poor equities market performance in 2001 and 2002 and declining interest rates.

The study also concluded something we at OMERS have already taken action to mitigate – it is very unlikely that stock market returns alone will eliminate the deficit situation in the short term.

LONG-TERM RETURNS AND FORECASTS

	Long-Term Return 50 Yrs	Return Forecast		
		Short-Term (1 Yr)	Mid-Term (3-5 Yrs)	Long-Term (10 Yrs)
Cash (91 Day T-Bill)	6.77	3.0	3.0	4.0
Scotia Capital Markets Universe Bond Index (1)	9.81	3.0	4.6	5.0
S&P/TSX Composite	11.60	7.0	9.0	8.0
S&P 500 (Cdn\$)	13.73	8.0	7.0	8.0
Morgan Stanley Capital International World (Cdn\$) (1)	8.06	7.0	7.8	8.0

Forecast Source: Windsor Wyatt Strategy & Economic Expectations 2004

Notes:

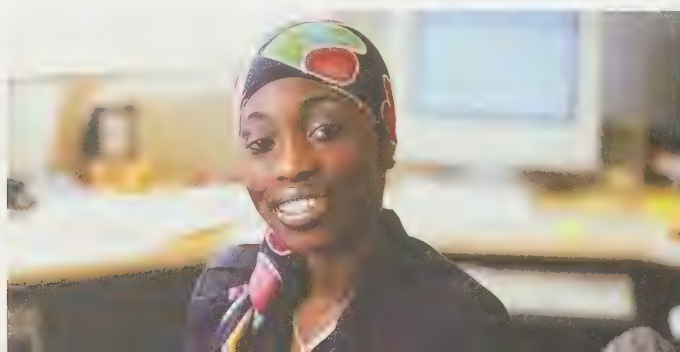
1) Since 1998 inception date

2) Since 1988 inception date

WHY OMERS HAS A FUNDING DEFICIT

There are a number of factors that have impacted OMERS funding status.

The main factor that has impacted OMERS funding status is the weak equities market from 2000 to 2002. Following the peak reached in 2000, stock markets declined dramatically. The S&P/TSX Composite Index hit a high of 11,389 the first week of September 2000. By October 2002, it had lost 50 per cent of its value and declined to 5,695.



The index ended 2004 at 9,247, a significant recovery, but still nearly 19 per cent below its peak. The Dow Jones, Nasdaq and other major market indices suffered the same fate, bringing pension asset growth down with them.

In addition to underperforming equity markets, OMERS has had to accommodate: changing demographics, as an aging population results in more retirements and a higher pension payroll; \$2.2 billion in benefit improvements – including 100 per cent inflation protection – requested by stakeholders following the strong performance by OMERS and equity markets in the late 1990s; and a nearly five-year federally-legislated contribution holiday that cost the Fund more than \$5.3 billion.

It was this combination of factors that has resulted in the current deficit, but the main factor has been the losses incurred during the market downturn from 2000 to 2002. Like other pension plans, OMERS amortizes the losses and gains of investment returns, to the extent that they vary from the long-term return assumption, over five years to determine the actuarial value of assets. This process is known as actuarial smoothing and is used to moderate the impact of short-term investment return fluctuations on contribution rates.

By the end of 2005, the deficit is expected to be approximately \$2.5 billion as losses primarily due to the stock market downturn described above are recognized in the actuarial smoothing process.

SMOOTHING EFFECT ON SURPLUS/(DEFICIT)

(as at December 31)

(\$ Billions)



OMERS OUTLOOK IS STRONG

The result of all of these factors is the actuarial funding deficiency we currently face. The consequence, especially in light of consensus single-digit average annual return expectations over the medium and long term for public equity and fixed income markets, has been decisive action.

Following a thorough review that began in 2003, OMERS Board concluded that three significant changes were needed to improve our long-term performance and to continue to secure our pension promise.

First, we are making the transition to a new asset mix strategy that relies less on more volatile public markets and more on alternative assets such as infrastructure investments (like bridges and energy companies), private equity and real estate. Within a few years, up to 40 per cent of OMERS assets will be invested in these three asset classes, which are expected to generate the strong, more stable returns and the steady cash flow needed to pay pensions as more and more Baby Boomers reach retirement age. Our exposure to publicly-traded stocks and bonds will decline from 80 per cent to about 60 per cent.

Second, we will take a more owner-oriented approach to our investments, rather than the passive investor approach that we, and many other institutional investors, have taken in the past. This approach has led to the in-house and hands-on business model we now have in place, with management of real estate, infrastructure and private equity under OMERS control.

And third, as a result of the first two changes, it is imperative that we have executives and senior managers with extensive business and investment experience. That new team is now in place.

As you will read in the letters that follow – from our Chair and from the President and CEO – OMERS made considerable progress in implementing these three initiatives in 2004. The result is that OMERS is better positioned to meet its primary commitment of paying pensions.

RESPONSIBLE

MESSAGE FROM THE CHAIR

Fellow OMERS members, it is a pleasure to have the opportunity to report to you about the past year. While my focus will be on 2004, I also want to relate to you some general observations about OMERS from my perspective as a member of the Board since 2000.

This is a unique plan and an equally unique organization. It has evolved and developed into an internationally recognized brand name, a sophisticated investment operation, and most importantly, a highly skilled pension administrator for our 355,000 members. As an example, in June 2004, OMERS hosted a delegation from South Africa who had come to Canada specifically to learn from our staff about how we are able to provide such a high level of service, especially given the varied and extensive number of employee groups and employers that comprise our membership.

OMERS primary purpose, and the foundation on which everything else is built, is our commitment and proven track record of fulfilling the pension promise. Everything else is secondary to ensuring pensions are secure, that they are delivered on time to our retired members, and that the plan is maintained at competitive contribution rates. That is the commitment I saw from my first day as a Board member. As I report to you on the past year, I can assure you that the commitment is equally strong today.

CHANGE TO STEADY-STATE OMERS

As reported to you last year in the Chair's letter, a number of initiatives were implemented in 2004 to strengthen the plan.

First, we acted on our stipulation that the contribution holiday was contingent on maintaining a sufficient surplus. When the surplus began to decline we resumed contributions from members and employers at one-third their normal rate in January 2003 and then in full a year later.

Second, we took steps to ensure the Plan's future health by reducing our reliance on public markets. The lessons from the market retreat from 2000-2002 were well-learned, and in 2004, we determined to shift a larger proportion of our assets into alternative investment classes. These investments, such as infrastructure, private equity and real estate, generally produce more stable returns and the steady cash flow required to pay pensions, regardless of returns in the public markets. By the end of this decade, this new asset mix will see approximately 37 per cent of our investments in alternative classes, about double the previous 18 per cent.

Finally, in recognition of these changes, a new management structure and executive team were put into place. Our Chief Executive Officer, Paul Haggis, reports on the status and initial success of this strategy on the following pages.

GOVERNANCE INITIATIVES

The OMERS Board recognized in 2004 that with the structural changes we had initiated, as well as the increasing complexity of governance in the corporate and pension environments, it was time to examine our own governance practices. We reaffirmed the major principles that guide the Board's work, committing to leading governance practices and focusing on strategic direction, policy, stewardship, and effective disclosure. Decisions made as part of this review process meant that commencing in January 2005, the Board will operate with two new Committees, Governance and Human Resources and Compensation, adding these to the existing Audit, Investment and Pension Committees.

We also re-emphasized our commitment to Board education, a key driver in ensuring Board effectiveness. We made corporate director certification mandatory for all OMERS Board members. A number of OMERS Board members were among the first to graduate from Directors College, jointly administered by the Conference Board of Canada and McMaster University, and now have the designation of Chartered Director. In addition, each newly appointed director must undertake specific training in pension matters. Board members also have a budget to be used to further enhance their development. This allows individual Board members the opportunity to focus their training in specific areas, as well as ensuring we remain current with new investment instruments and pension practices. (More details on our Governance initiatives can be found on page 27.)

CHALLENGES IN THE YEAR AHEAD

Every action we have taken is to build and strengthen OMERS for the challenges ahead.

In 2005, the OMERS Board will focus on a number of key issues. First and foremost, similar to other public pension plans, OMERS must contend with growing liabilities. While investment returns in 2003 and 2004 were strong, the Fund must still account for shortfalls in the previous three years. That combined with a number of other factors, means we anticipate an increase in contribution rates will take place, commencing January 2006. This is not a step taken lightly. However, as I stated earlier, our primary purpose is fulfilling the pension promise. The increase is necessary to meet that objective. We are aware of the impact any increase in rates has on our members and employers and we will commit to keep you informed of key developments in this area.

Regulatory issues will remain a priority for the upcoming year, including implementing a number of recent changes to the *OMERS Act and Regulation*. We also continue to engage the Government of Ontario in discussions regarding a change to the *Pension Benefits Act*, to grant OMERS an exemption from current solvency rules, which we feel are unnecessary for public sector pension funds. We will continue to seek legislative and regulatory reforms that enhance our ability to run the plan as responsively and cost-effectively as possible.

The Board will also continue to co-operate fully with the Financial Services Commission of Ontario (FSCO), which in 2004 initiated a review of our compliance with the *Pension Benefits Act* and related regulations. We look forward to receiving the results of this review and bringing the matter to a conclusion. Once the findings have been released by FSCO, we will inform our members of the outcome.

Another issue that may arise during the coming year is a review of the current governance structure for OMERS.

FUTURE ASSETS MIX





Many of our sponsor groups have been advocating changes in the governance of OMERS, essentially seeking a more direct role in determining plan design. This would put OMERS on the same footing as the other large public pension plans in Ontario. Responsibility for any change in the sponsorship role of the Plan lies with the provincial government. We will co-operate in any way we can, and if a decision is made to proceed with changes, we will ensure a smooth transition. We do not believe that in any case there would be a change in the Board's role and responsibilities in overseeing investments and administering the Plan.

POSITIVE OUTLOOK

Your Board of Directors is pleased with the positive change that has been initiated over the past two years. Considerable progress has been made in implementing a new investment strategy, developing management and operational structures, creating a new senior management team and improving our governance practices. We committed to a logical, deliberate and thoroughly considered course of action and we are on target.

Times of change are always difficult and testing for the people closest to the action. Our significant accomplishments of the past year, and our confidence heading into 2005, are a direct result of the efforts and contributions of the dedicated and hard-working employees of OMERS. On behalf of the entire Board, it is my privilege to acknowledge and thank them for their hard work. I would also like to express my appreciation to Nancy Bardecki, Peter Leiss and Dennis Neethling, who left the Board in 2004, for their contributions to OMERS.

OMERS is strong. Our history is proud and exemplary. Our future is founded on protecting yours. The pension promise is – and remains – secure.

A handwritten signature in dark ink, appearing to read 'Fred Biro', written in a cursive style.

Frederick Biro
Chair

RESPONSIBLE ACCOUNTABLE SUSTAINABLE

LETTER FROM THE PRESIDENT

OMERS had two main objectives for 2004 – make significant progress in implementing the organizational and strategic changes that we started in 2003 and start to reap the investment return benefits of our new asset mix policy. We exceeded expectations on both counts.

Our investment performance was strong. We earned a 12.1 per cent total fund rate of return, and exceeded our overall benchmark by 2.2 per cent, which means that our investment strategies and capabilities combined to add value to OMERS portfolio beyond the return

generated by the markets. After allowing for inflation of 2.1 per cent, our 2004 real rate of return was 10.0 per cent, far exceeding our long-term real return funding requirement of 4.25 per cent.

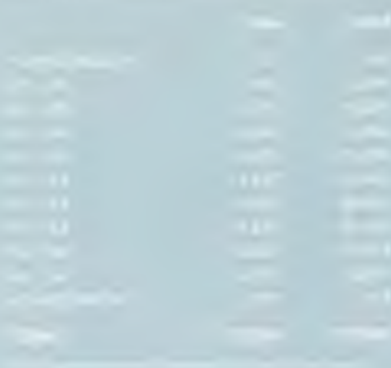


One of our operating principles might be described as adopting a “marketing mindset.” We want to make sure we understand the needs of our active and retired members, and fulfill them at a cost that represents good value. Our performance in 2004 shows we are doing just that. We have one of the best service records among public sector plans – regular surveys show that we receive between 85 per cent and 90 per cent overall satisfaction rating from our customers. We regularly complete pension claims, quotes or other member-initiated service requests within three days and more than 90 per cent of information requests called into OMERS are fulfilled on first contact.

In 2004, we extended our leadership in providing e-services to our employers. Nearly 70 per cent now use the easier, faster and more accurate e-forms to provide critical information to OMERS.

The Pension Division’s focus for 2005 and beyond includes making further service improvements by expanding e-access and enhancing our call centre service standards. The division also plays a key role in our actuarial valuation, identifying contribution level and deficit management options, and will continue to advocate changes to solvency and divestment rules so that OMERS can better manage the plan’s funding position in future and help to keep contribution rates reasonable.

ACTIVE MEMBERS BY AGE GROUP



MEMBER PROFILE



Overall, we made tremendous progress on the new investment strategy and business model I outlined in last year's annual report. Perhaps our most important achievement in 2004 was to set the foundation for the future, by implementing the strategies and operating principles that will create the sustainable returns we need to meet our growing pension payroll. In fact, with the excellent returns earned by our private market investments, we are beginning to see tangible evidence that our new asset mix strategy, which will fully play out over the next four to five years, is already working.

Our pension services, which are rated among the best in the public sector, continue to meet the needs and expectations of our members, employers and retirees.

The mandate of OMERS management is clear – generate sufficient returns from our assets to satisfy the pension

promise and provide our 355,000 active, retired and former members with cost-effective pension administration and service that meets their needs.

Our objective, however, goes well beyond simply complying with the letter of our mandate. We are committed to creating a well-defined and recognized competitive advantage for OMERS in three principal areas. We will continue to provide first-rate client service and, working with employer partners and members, provide pension services that are cost and feature competitive. In managing the Fund's portfolio, we will earn competitive rates of return for our members. And in our investment activities, we will develop competitive partnership capabilities for co-investors in infrastructure, private equity and real estate projects.

PUBLIC MARKET INVESTMENTS

Although our asset mix will focus more on private market investments in the future, public market investments will continue to make up the majority of assets. Public market investments outperformed its overall benchmark by 0.8 per cent in 2004, reflecting our value investment bias towards companies with strong management, business plans, quality earnings and a sustainable business record.

Public market investments' 2005 priorities are aimed primarily at maintaining our strong investment performance by focusing on higher value added targets (performance above benchmarks) and better performance from our Canadian core fund. We also plan to introduce a concentrated Canadian equity portfolio, improve investment risk management tools and processes, and develop new integrated leverage/debt and currency management policies.



Virtually all of last year was dedicated to implementing the principles outlined on page 3 and making the accompanying necessary internal organizational changes. I'd like to tell you what these changes have meant in practical terms.

THE RIGHT ORGANIZATION WITH ACCOUNTABILITY

We have built a structure around a new corporate strategy, with control of our own investments. We repatriated our infrastructure, private equity and real estate businesses to allow us to act as initiators, active participants and owners of projects, rather than just passive investors. As a result, we now have five operating groups that focus on specific areas with specific expertise – pensions, public market investments, real estate (Oxford Properties Group), private equity (OMERS Capital Partners), and infrastructure (Borealis Infrastructure Corporation).

Each of these operating groups is directly accountable for its results. The Pension Division focuses on administering the plan efficiently and ensuring our retirees continue to receive their pension payments on time every month. OMERS corporate allocates capital to our four investment groups based upon risk-adjusted return expectations and closely monitors their performance; however, the groups are responsible for delivering absolute rates of return that meet our expectations and needs over time.

THE RIGHT PEOPLE WITH THE RIGHT SKILLS

This kind of structure and this kind of active approach to investing require a specific kind of management – managers who are comfortable with multi-currency, multi-subsidiary and multi-national environments, who have public company and market experience, who understand how business and strategic plans are developed, who can contribute positively to the value of an investment, rather than just watching its fortunes rise and fall, and who are prepared to have their compensation tied directly to their performance.

Hiring executives who meet these criteria has been a key achievement of our transition over the past 18 months. The heads of our alternative asset class groups came on board with the purchase of Borealis. During 2004 we added more executives with the skills we need to execute our strategy. Paul G. Renaud was appointed Chief Financial Officer and Senior Vice President, Finance and Administration. Two new executive positions were added to bring greater internal control to our operations. Selma Lussenburg was appointed Senior Vice President and General Counsel and Geoffrey Storms was appointed Vice President, Internal Audit.



During 2004, OMERS Capital Partners (OCP), which manages our investments in privately-held companies, earned a 12.5 per cent return, reversing the negative return of 2003.

Historically, OMERS participated in private equity through limited partnerships managed by external firms. In the future, our approach will favour more direct investment.

During 2004, OCP funded nearly \$600 million in new investments. This level of investment activity helps us to achieve a strategic imperative for active investors – developing the kinds of relationships that increase our deal flow access and enhance our profile as a major global private equity player.

Our improved performance in 2004, which was essentially a transition year, resulted from favourable market value adjustments to certain investments and a more stable Canadian dollar, which reduced foreign exchange losses.

THE RIGHT INFORMATION AT THE RIGHT TIME

We are an organization that is built around people making decisions. Second in importance only to the quality of the people making the decisions, is the quality of the information they have at hand. Our experienced executives bring critical intelligence from each of their businesses to an environment that shares and acts on that information. The information we share and the due diligence we apply is a competitive advantage that makes for better business opportunities, better business decisions and, in the long run, stronger investments for OMERS.

THE TRANSITION TO OUR NEW STRATEGY AND ASSET MIX

Our shift from public markets to alternative investment classes is progressing well, though the year-end 2004 report on our asset mix breakdown seems to show little movement. The reason is that unexpected strong equity markets over the past two years have increased the value of our public investments and therefore their proportion relative to alternative investments. Also, several large

private equity deals were scheduled to close early in 2005. We are confident we will reach our targets by the end of this decade as planned, and that our long-term investment performance will benefit as a result.

The accomplishments of our five operating groups are evidence that our new strategy is already working well.

OUTLOOK FOR OMERS

OMERS biggest challenge for the next few years is to achieve the kind of asset growth we will need to meet future pension liabilities in the face of challenging demographics and moderate expectations for public markets in the medium term.

Over the last two years, the Fund's performance has exceeded our actuarial requirements and this has allowed the Board of Directors to moderate the impact of a contribution rate increase. However, we must achieve returns that significantly exceed our benchmarks over time in order to return OMERS to a neutral actuarial funding position. That is why we are making the changes we've outlined above.

The opportunities for quality infrastructure investments are plentiful – Canada alone currently has a \$100 billion infrastructure deficit and there are projects around the globe with strong potential. Infrastructure is a perfect asset class for pension plans, producing stable long-term cash returns from often-regulated and government supported projects.

Borealis had an unusually strong year in 2004, with a return of 31.0 per cent resulting from higher earnings and favourable market value adjustments on several investments. Strong deal flow was also originated, resulting in total investment commitments of approximately \$900 million in 2004.

Borealis' 2005 priorities include achieving a minimum 10 per cent return on operating infrastructure assets, doubling net infrastructure investments to \$2.4 billion, adding infrastructure projects in Western Europe and securing strategic investment alliances that will allow us to bid on large scale, quality infrastructure assets.



2004 was a year of accomplishment for OMERS. We built the framework for an investment strategy that will capitalize on the strengths of the public markets and the real estate, private equity and infrastructure sectors. Our overall investment management expenses were down 7.0 per cent in 2004 from 2003, largely because we repatriated infrastructure and private equity investment management. We established stronger internal controls and management reporting. And we added investment and financial services expertise that will be a key performance driver going forward.

With the support and encouragement of our Board of Directors and the dedication of our employees, we have raised the bar and we're on time, on plan and on budget – working towards ensuring that our members' pensions remain secure.



A handwritten signature in dark ink, which appears to read "Paul G. Haggis".

Paul G. Haggis

President and Chief Executive Officer



OXFORD PROPERTIES GROUP

Responsibility for OMERS real estate assets has been consolidated under the Oxford banner. With nearly \$11 billion in real estate investments under management, including the full value of co-owner properties, Oxford Properties Group earned an 11.0 per cent return in 2004 on its invested capital, well ahead of our benchmark of 7.2 per cent. The improved results were buoyed by strong valuation trends and operational improvements.

In 2004, some adjustments were made to the portfolio, resulting in the sale of some non-core office assets.

Oxford continues to build a global platform for our real estate investments, which we expect to produce a return of 4.25 per cent above Consumer Price Index gains.

MEMBER SERVICES

The most frequent, and arguably most important, day-to-day OMERS contact for most of our stakeholders is Pension Services. In fact, one of our operating principles specifically addresses the importance of understanding the needs of our customers and fulfilling them in an efficient and timely manner.

Our main achievement in 2004 was a broad and important one: our significant enhancement in service turnaround time and quality was sustained and continues to improve, and our satisfaction ratings remain very high. The result is that OMERS is now universally regarded as a service leader in the pension industry.

Over the past five years we have been building the operational structure and technological platform to meet the complex needs of an organization that serves nearly 900 employers and 355,000 members, and to accommodate the growth in plan membership expected over the next two decades.

NEW TECHNOLOGY MEANS BETTER SERVICE

Technological improvements continue to pay dividends. With employer e-tools and a sophisticated pension system, retirement estimates and pension claims are now normally available in one to two days, compared with 20 to 30 days in the late 1990s.

Our e-access program, which is the foundation for sustained efficiency improvements, continues to grow. Nearly 70 per cent of all forms are now submitted by employers online, up from about 55 per cent at the start of 2004.

One of the most important advances was the year-end introduction of an employer e-form critical to our operations. It enables employers to report annual member information easily and securely, and allows us to process members' annual pension reports more quickly. Using this online form, we processed data for 50,000 members in the first six weeks of 2005. Just five years ago, it took seven months to process the same number.

SURVEYS SHOW WE'RE ON TRACK

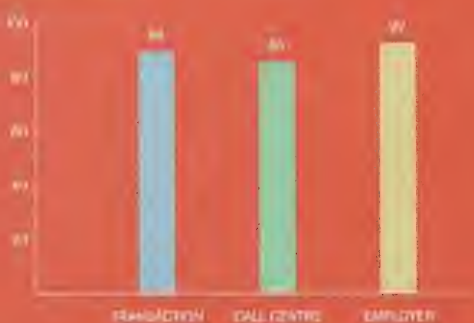
We regularly survey our employers and our active and retired members to get their assessment of how well we are fulfilling their needs and how we might improve.

Our fall 2004 survey told us that employers and members had an overall positive perception in terms of satisfaction with the plan, trust in OMERS to administer the plan, and plan security.

Our service improvements of the last few years are reflected in the very positive perception of members who have recently had a service contact with OMERS. Nearly nine out of ten respondents to our fourth quarter 2004 service survey rated our transaction, call centre and employer service either satisfactory or very satisfactory.

SATISFACTION SURVEYS

Percentage of respondents who rated OMERS 4 or 5 (5 is most satisfied)



NUMBER OF RETIREMENTS IN PAST FIVE YEARS

(thousands)



OMERS SENIOR EXECUTIVE MANAGEMENT TEAM



FLO PALADINO – Vice President,
Human Resources



JENNIFER BROWN – Acting Senior
Vice President, Pension Division



GEOFFREY STORMS – Vice President,
Internal Audit



MICHAEL NOBREGA – President and
CEO, Borealis Infrastructure Corporation



PAUL G. RENAUD – Senior Vice
President and CFO



MICHAEL LATIMER – President and
CEO, Oxford Properties Group



DEBBIE OAKLEY – Senior Vice
President, Corporate Affairs



PAUL PUGH – Senior Vice President,
Public Market Investments



IAN COLLIER – President and CEO,
OMERS Capital Partners Inc.



SELMA LUSSENBURG – Senior Vice
President and General Counsel



PAUL HAGGIS – President and CEO

RESPONSIBLE ACCOUNTABLE SUSTAINABLE

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section contains management's analysis of the Plan's financial condition, operational results, and the environment in which it operates and should be read in conjunction with the consolidated financial statements. In addition to historical information, this section contains forward-looking statements with respect to management's strategy, objectives, outlook and expectations. Forward-looking statements are preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". By their very nature, those statements are subject to risks and uncertainties, which may cause actual results to differ from the expectations expressed in the forward-looking statements. Forward-looking statements made in this section represent management's views at the date of this report and OMERS does not undertake to update or revise any forward-looking statements as a result of new information, future events, or otherwise.

OUR OBJECTIVES

Two overall objectives govern our actions:

- (i) generating sufficient returns, through the investment of the Fund's assets, to satisfy the pension promise to our members; and
- (ii) providing cost effective pension administration services that meet our members' needs, the most important of which is to pay monthly pensions.

Over the long term, employee/employer contributions fund approximately 30 cents of every dollar paid in benefits with the balance coming from the returns generated on the Fund's assets.

OUR PLAN

OMERS is a multi-employer pension plan whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees, and by investment earnings of the Fund. The Plan has approximately 355,000 active, former and retired members.

Benefits under the Plan are calculated by multiplying two per cent of the member's average earnings for the highest paid five consecutive years times years of credited service, to a maximum of 35 years. OMERS pension is integrated with the Canada Pension Plan and the OMERS formula includes a bridge benefit paid to age 65. Inflation protection, survivor benefits and early retirement options are also excellent features of the Plan.

In addition to the Basic Plan for all members, OMERS maintains a Full Earnings Plan through the use of a Retirement Compensation Arrangement (RCA), which provides supplementary pension benefits for members whose benefits under the Basic Plan are limited by the maximum legislative ceilings imposed by the *Income Tax Act*. An RCA provides a means to enable retirement savings and contributions on members' total earnings.

FUND PERFORMANCE

OMERS earned a 12.1 per cent total fund rate of return in 2004, compared with a 12.7 per cent total fund rate of return in 2003. After allowing for inflation of 2.1 per cent, the real rate of return was 10.0 per cent, which significantly exceeded our long-term real return funding requirement of 4.25 per cent. Net investment income totaled \$3,694 million in 2004, versus \$3,542 million a year earlier.

Net assets grew by \$3,562 million, or 11.1 per cent, to \$35,655 million in 2004 compared with an increase of \$2,588 million or 8.8 per cent last year. The factors driving the increase were the strong net investment income resulting from the continued recovery in public equity markets, the income growth from private market investments and the Plan's return to full contributions in 2004, at a slightly increased rate.

Investment management expenses were \$147 million in 2004, compared to \$158 million in 2003, a decrease of 7.0 per cent. A significant factor contributing to the reduction was the restructuring of part of our investment organization in February 2004 to realize our new business model, with the result that origination and management of private market investments are now under OMERS stewardship. Pension administrative expenses were \$43 million for the year, compared with \$44 million last year.

Performance Overview

We measure the performance of each of our investment portfolios against an objective benchmark that acts as the proxy for each market. Our goal is to earn returns that exceed these benchmarks. For the year, total fund returns exceeded the total fund benchmark of 9.9 per cent by 220 basis points. When we exceed the benchmark, we add value to the portfolio above the return generated by the markets. This concept of value added is important even when we have negative returns. We develop a benchmark for the total fund by aggregating and weighting the individual benchmarks proportionately with our asset mix policy.

Public markets generated net investment income of \$2,928 million compared with \$3,998 million a year earlier, and a return of 10.3 per cent, exceeding the benchmark return of 9.5 per cent. The reduction in net investment income is attributable to lower returns in public equity markets in 2004 compared with the strong market recovery in 2003 where our Canadian public equities returned almost 27 per cent.

Interest bearing investments, excluding real return bonds, produced income before investment management expenses of \$568 million, a slight reduction from 2003. The return for interest bearing investments, excluding real return bonds, was 7.5 per cent compared with 6.8 per cent for the benchmark and 7.0 per cent a year earlier. The gain of 70 basis points over the benchmark primarily reflected the performance of our core active bond portfolio and mortgage portfolio, both of which had gains from changes in interest rates. Real return bonds produced \$165 million in income and had solid returns of 17.6 per cent, compared with 17.5 per cent for the benchmark and 13.4 per cent in 2003.

Public equity investments generated income before investment management expenses of \$2,270 million, \$1,007 million from the Canadian market and \$1,263 million from global markets. Canadian public equities valued at \$6,638 million plus Canadian equity derivative exposure earned a return of 14.2 per cent for the year, compared with a 26.8 per cent return in 2003 and the 2004 benchmark return of 14.4 per cent. Non-Canadian public equities valued at \$8,570 million, and non-Canadian equity derivative exposure earned a return of 11.5 per cent in 2004, compared with 10.7 per cent for the benchmark and a 20.0 per cent return in 2003. Although mitigated by our currency-hedging program, the non-Canadian public equity return was reduced after conversion into Canadian dollars. U.S. portfolios make up about half of non-Canadian public equities and, as such, returns were affected by the continued strengthening of the Canadian dollar compared to the U.S. dollar.

Private equity investments generated net investment income of \$104 million, compared with a loss of \$212 million last year. The 2004 return on total investment income was 12.5 per cent compared with a negative 13.8 per cent return in 2003 and a 2004 benchmark return of 1.8 per cent. The improvement in performance stems from better returns on both fund and direct investments and the reversal of \$25 million in market value adjustments recorded against certain direct investments in 2003.

Infrastructure investments generated net investment income of \$292 million, compared with a loss of \$69 million a year earlier. The 2004 return on total investment income was 31.0 per cent, compared with a negative 6.5 per cent return in 2003 and a 2004 benchmark return of 1.8 per cent. The increase in investment income and returns reflect favorable market value adjustments on several investments.

Benchmarks for private equity and infrastructure were established based on initial plans to make development investments in these asset classes. That phase of the investment has been completed and revised benchmarks going forward have been established. For 2005 the benchmarks are 7.6 per cent and 11.8 per cent, respectively, for private equity and infrastructure.

Real estate generated net investment income of \$436 million, including operating income of \$445 million after interest expense. This compared with a net investment loss of \$124 million a year earlier on operating income of \$400 million after interest expense. The 2003 income and returns were affected by negative market value adjustments to the carrying value of the properties and

debt, a write-down in goodwill and other real estate provisions totaling \$431 million. The real estate portfolio (partially funded by \$2,395 million in mortgages and other debt) had an 11.0 per cent return in 2004, compared with a negative 3.7 per cent return in 2003 and a 2004 benchmark return of 7.2 per cent.

Long-Term Returns

OMERS annualized four-year return (a standard measure in the pension fund industry) was 3.2 per cent, well below the 6.4 per cent four-year funding requirement. The four-year period from 2001 through 2004 included losses suffered during the worst stock market collapse since 1929. Applying a longer horizon, our 10-year return to the end of 2004 was 9.1 per cent, versus 6.3 per cent for the funding requirement. Since first implementing an active investment policy in 1974, the Fund has a 10.2 per cent compounded annual return, compared to a funding requirement of 8.7 per cent.

OUR PLAN'S FUNDING STATUS

Each year, an independent actuary determines the Plan's funding status by comparing the estimated actuarial value of invested assets to the present value of all pension benefits that members have earned to date. On December 31, 2004, the estimated actuarial accrued pension obligation for all members including survivors (excluding the net liabilities of the Full Earnings Plan) was \$37,774 million, compared with \$35,466 million a year earlier. OMERS Basic Plan had actuarial net assets of \$36,811 million in 2004, compared with \$35,975 million in the prior year, resulting in a funding deficit of \$963 million as at December 31, 2004, compared with a \$509 million surplus as at December 31, 2003.

The Full Earnings Plan had an estimated funding deficit of \$137 million at December 31, 2004, compared with a deficit of \$63 million last year.

CHANGES IN SURPLUS/(DEFICIT)

	2004	2003
BASIC PLAN		
Balance, beginning of year	\$ 509	\$ 2,514
Increase in net assets available for benefits	3,556	2,587
Change in actuarial valuation adjustment	(2,720)	(2,150)
Decrease in actuarial value of net assets available for benefits	836	427
Decrease in assets to account pension benefits	(2,308)	(2,432)
Balance, end of year	\$ (963)	\$ 509
FULL EARNINGS PLAN		
Balance, beginning of year	\$ (63)	\$ (68)
Change in net assets	6	1
Change in actuarial valuation adjustment	(80)	(6)
Balance, end of year	\$ (137)	\$ (63)

The significant factors that have contributed to the funding deficit in the Basic Plan include the following:

Enhanced Pension Benefits

The cost to the Plan of benefit improvements, implemented between 1998 and 2000, including inflation protection of up to 6.0 per cent per year, improved spousal benefits and a change to the CPP offset formula, was \$2,200 million.

Contribution Holiday

A full contribution holiday was triggered by the large surplus that existed in 1998. Under federal law at that time, a contribution holiday was mandatory when actuarial assets exceeded 110 per cent of liabilities. Actuarial asset values peaked at 127 per cent of liabilities in 1998, resulting initially in reduced contributions, followed by a contribution holiday for employers and plan members that began in August 1998 and lasted until December 2002. More than \$5,300 million in contributions that would normally have been made during this period did not flow into the Plan and were not available for investment because of the full contribution holiday. In 2003, contributions restarted at approximately 33 per cent of the normal level and returned to normal levels in 2004.

In 2003, the federal government amended the *Income Tax Act* in response to requests by OMERS and other public sector plans. Under current legislation, a partial contribution holiday is triggered when actuarial assets reach 110 per cent of liabilities, and a full contribution holiday is not required until actuarial assets reach 125 per cent of liabilities. This change will allow OMERS to better manage contribution rates and improve funding stability for future generations of members.

Recognition of Losses Carried in the Actuarial Valuation Adjustment Reserve

The 2004 Basic Plan funding deficit was also impacted by the recognition of losses that were deferred and amortized in the actuarial valuation adjustment reserve as a result of returns below the long-term actuarial rate of return assumptions in 2000 through 2002. In arriving at the surplus/deficit, the fair value of net assets is smoothed to reduce the volatility that can be caused by a single year's investment returns. Smoothing is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term market fluctuations on pension plan funding. The process "smoothes out" the peaks and valleys of market volatility by deferring and amortizing returns that are above/below the long-term actuarial rate of return assumption, to actuarial assets over a five-year period. The adjustment is based on the difference between actual returns and the long-term return expectation (inflation plus 4.25 per cent equivalent to 7.25 per cent) for the current year plus the four preceding years. This is in keeping with the long-term nature of the Plan, and assists OMERS in our objective of maintaining stable contribution rates rather than frequently adjusting them to keep pace with the year-over-year performance of the Fund.

Investment returns were positive in 2003 and 2004 as public equity markets, particularly in Canada, performed well. OMERS also achieved improved results across its private investments. As a result, as at December 31, 2004, the actuarial valuation adjustment account representing unrecognized losses now totals \$1,168 million compared to \$3,888 million in 2003 and well below its peak of \$6,048 million in 2002.

The estimated present value of accrued liabilities for the Basic Plan at year-end 2004 was \$37,774 million, a 6.5 per cent increase from \$35,466 million in 2003 due to interest on accrued benefits, additional pension benefits earned by plan members, certain plan amendments and member salary increases that were higher than expected.

Funding Outlook

Based on current economic conditions, the actuary estimates that the funding deficit for the Basic Plan will increase to approximately \$2,500 million by the end of 2005. Ontario provincial regulations require the Plan to take steps to eliminate a funding deficit within 15 years, typically through increased contributions or a change in the benefits offered upon filing an actuarial valuation with the regulatory authority. As a result, the Board has decided that contribution rates will be increased and intends to communicate its decision on the rate increase in the spring of 2005.

The 2004 base contribution rate was 6.0 per cent of salary up to \$40,500 and 8.8 per cent for salary above that level. For police officers and firefighters, who have a normal retirement age of 60 and represent about 12 per cent of OMERS members, the 2004 rate for salary up to \$40,500 was 7.3 per cent and 9.8 per cent for earnings above that level.

In calculating the funding deficit, the actuary makes various long-term economic and demographic assumptions. Assumptions about investment returns affect the projected value of assets. Assumptions about inflation and salary increases affect the projected value of future benefits. The actuary's assumptions which are reviewed by the Board are summarized as follows:

- First, the Plan's annual nominal rate of return and discount rate is assumed to be 7.25 per cent, which includes annual inflation of 3.0 per cent.
- Second, it is assumed that members' earnings will increase annually by approximately 4.5 per cent. This rate is based on inflation plus an age-related factor; and where applicable, a service-related factor.

Full Earnings Plan

As a consequence of the pay-as-you-go funding policy adopted for the Full Earnings Plan, its assets will remain small relative to its liability. However, our actuary estimates that if contributions to the RCA continue, the annual cash inflow will be sufficient to cover benefit payments and the RCA's assets will continue to grow for the foreseeable future. The actuarial liability for the Full Earnings Plan increased from \$69 million in 2003 to \$149 million at the end of 2004. The increase was mostly attributable to a change in the estimation of anticipated returns to incorporate the effect of the 50 per cent refundable tax applicable to RCA plans.

Pension Benefits and Contributions

OMERS ended 2004 with approximately 97,000 retired members and survivors receiving pension benefits. Benefits paid in 2004 were \$1,498 million, an increase of \$142 million over 2003. The increase reflected new retirements and the adjustment of benefits for inflation. Contributions for 2004 were \$1,409 million compared with \$446 million in 2003. The increase was a result of contributions returning to full rates in 2004, following 2003 when they were at one-third of full rates and the period from August 1998 to December 2002 when there was a full contribution holiday. For 2004, pension benefit payments exceeded contributions by \$89 million.

THE ASSET MIX POLICY

In order to meet our pension obligations to our members, the Plan must earn a 4.25 per cent real return (that is, after inflation) on its investments over the long term. In developing an asset mix policy, we identify the asset classes that collectively are most likely to meet our pension obligation. We weigh the risk/reward profile of each asset class to ensure that we are reasonably compensated for risk, and we invest in different asset classes and geographic markets to disperse portfolio risk and reduce the volatility of total returns.

We believe that over the long term, an asset mix with greater exposure to private market investments is better positioned to generate sufficient returns to meet the Plan's funding requirements. As we announced in 2003, we intend to reduce the percentage of the Fund exposed to interest bearing investments and public equities over the next two to four years while increasing investments in private markets, particularly infrastructure and private equity. Our asset mix policy is supported by sophisticated investment strategies, such as absolute return strategies, foreign currency management and derivatives.

In 2004 we increased the market value of our net investment assets in private equity and infrastructure by \$782 million and our net real estate investment assets increased marginally. However, due to strong public equity markets and the timing of the closing of some large private market investments, on a percentage basis the transfer of our exposure to private markets did not meet our 2004 year-end target. In 2005 we anticipate significant increases in both infrastructure and private equity investments.

ASSET MIX

	December 31, 2004		Long-Term Target
	Actual	Target	
PUBLIC MARKETS			
Interest-bearing	19.4%	15.0%	15.0%
Real return bonds	3.5%	5.0%	5.0%
Public equity	58.7%	58.5%	42.5%
	81.6%	78.5%	62.5%
PRIVATE MARKETS			
Private equity	4.1%	2.0%	10.0%
Infrastructure	3.5%	2.0%	15.0%
Real estate	10.8%	12.5%	12.5%
	18.4%	21.5%	37.5%

In determining OMERS asset mix exposure, the market value of net investment assets per the consolidated financial statements is adjusted to allocate cash, derivative backing assets and other investment related assets and liabilities to the asset classes where OMERS is ultimately exposed. Net investment assets based on the holdings per the consolidated financial statements and after all allocations are as follows:

	December 31, 2004			December 31, 2003		
	Financial Statement Holdings	Asset Mix		Financial Statement Holdings	Asset Mix	
		Exposure	%		Exposure	%
PUBLIC MARKETS						
Interest bearing	\$ 13,809	\$ 6,990	19.4%	\$ 15,912	\$ 7,856	22.2%
Real return bonds	1,266	1,266	3.5%	372	372	1.7%
Total interest bearing	15,075	8,256	22.9%	16,284	8,227	24.0%
Public equity	15,208	21,255	58.7%	13,884	18,764	57.3%
	30,283	29,511	81.6%	30,168	26,991	62.2%
PRIVATE MARKETS						
Private equity	1,460	1,484	4.1%	914	912	2.8%
Infrastructure	2,314	1,283	3.5%	1,426	1,599	3.1%
Real estate	6,898	3,904	10.8%	6,820	2,877	11.9%
	10,672	6,671	18.4%	9,160	5,810	13.8%
Investment related assets	665	-	-	703	-	-
Investment related liabilities	(5,438)	-	-	(7,512)	-	-
Net Investment Assets	\$ 36,182	\$ 36,182	100.0%	\$ 33,708	\$ 33,708	100.0%

Managing the Asset Mix

The asset mix is reviewed daily by our investment specialists to ensure compliance with the approved policy. Recommended changes to react to market conditions are reviewed by the senior investment management team. Interest bearing or equity-based derivative contracts are purchased or sold to adjust the asset mix in the short term. Our policy of regular rebalancing is part of our risk management and also ensures sufficient liquidity to meet pension and operating obligations.

PUBLIC MARKETS

Public market investments include OMERS investments in bonds, other interest bearing assets and publicly traded equities. Due to the strong public equity returns, particularly in the last month of 2004, the Plan's exposure to public markets was reduced only modestly compared to last year (81.6 per cent compared to 82.2 per cent). Our goal is to move toward a target exposure of approximately 62.5 per cent over the next two to four years.

Actively Managed Interest Bearing Investments

Interest bearing investments are a natural fit for a pension plan seeking reliable low-risk returns that offset the more volatile nature of publicly traded equities. At December 31, 2004, interest bearing investments totaled \$15,075 million. Of this total, \$6,990 million (which includes \$834 million of funds provided to, or allocated between other asset categories) was invested with exposure to Canadian bonds and debentures, mortgages, private debt and short-term investments, \$1,266 million was invested in real return bonds and \$5,985 million was backing assets for derivatives programs that provide exposure to public equity markets.

As at December 31, 2004, interest bearing investments consisted of federal bonds, provincial bonds, mortgages with a mix of commercial, industrial and multi-residential loans, real return bonds issued by governments, corporate bonds of institutional investment grade, private placements, and short-term cash equivalent securities. Approximately 18 per cent of mortgage and private placement loans are guaranteed by government agencies such as Canada Mortgage and Housing Corporation.

In the past 10 years, interest bearing investments, excluding real return bonds, have earned an annualized return of 9.0 per cent, including capital gains, in a declining interest rate environment. We are now in a more modest yield environment where these assets are not expected to yield these returns.

Debt issued in prior years to other institutional investors through OMERS real estate operations includes \$500 million issued in November 2002 and \$500 million issued in April 2003 in debentures and our \$285 million commercial paper program. These issues, together with other credit facilities, are backed by our triple "A" credit ratings from leading credit rating agencies and provide stable, low-cost financing for our real estate assets in the infrastructure and real estate portfolios.

Public Equities

OMERS \$6,638 million invested in Canadian public equities and \$8,570 million in non-Canadian public equities include both actively managed and quantitatively managed portfolios. Exposure to public equities also includes \$5,908 million of exposure through the use of derivatives and the allocation of \$139 million of investment-related assets and liabilities.

Actively Managed Equity Portfolios

The actively managed Canadian equity portfolio totaled \$5,769 million in 2004 and contained approximately 200 publicly traded companies. We select companies with strong management and a clear business plan, avoiding more volatile investments that may do well in the short term but lack staying power.

Our investment professionals are value investors who buy the shares of well-managed, profitable companies that can produce reliable long-term returns. They select, for example, companies that should gain value from synergistic acquisitions or that have a competitive advantage in their industry. Within approved asset allocation guidelines, staff can take advantage of short-term trading opportunities to generate added value. On average, we trade as much as 20 per cent of the portfolio annually.

Up to 10 per cent of our core actively managed portfolio can include U.S. equities. This enables us to add companies in economic sectors that are underrepresented in Canada, such as pharmaceuticals, or regional U.S. banks that have different valuation multiples and performance profiles than Canadian banks.

Outside Canada, we had \$6,958 million invested in the equities of approximately 1,300 companies in the United States, United Kingdom, Europe, the Far East and emerging markets. Participation in various global economies increases our portfolio diversification and lowers overall risk.

Our non-Canadian equity portfolios are actively managed by 17 investment firms that specialize in regional and national markets. Our shift towards a global mandate enables managers to make larger allocations by country, sector or capitalization where they believe higher returns are possible. During the year, we engaged two new global managers and increased funding to several managers retained in prior years.

RETURNS AND BENCHMARKS

	2004		2003	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Canadian interest bearing	7.5%	6.8%	7.0%	6.5%
Real return bonds	17.6%	17.5%	13.4%	13.3%
Canadian public equities	14.2%	14.4%	26.8%	27.5%
Non-Canadian public equities	11.5%	10.7%	20.0%	19.0%
Private equity	12.5%	1.8%	13.8%	4.6%
Infrastructure	31.0%	1.8%	6.5%	4.6%
Real estate	11.0%	7.2%	3.7%	7.1%
Total Fund	12.1%	9.9%	12.7%	15.5%

Quantitative Managed Equity Portfolios

Our investment professionals earn enhanced and less volatile returns from market indices by employing actively managed low-risk strategies that include index-based swaps, arbitrage and the anticipation of changes in index composition. Using technical analysis and computer modeling, these strategies, referred to as quantitative management, are applied to:

- a \$568 million actively managed portfolio plus a \$1,015 million derivative portfolio that target the S&P/TSX Composite Index on the Toronto Stock Exchange and provide broad exposure to Canadian firms;
- a \$301 million actively managed portfolio plus a \$106 million derivative portfolio that provide exposure to the S&P/TSX 60 index consisting of Canada's 60 most liquid stocks, representing 75 per cent of the Toronto Stock Exchange's capitalization;
- a \$1,256 million actively managed Russell 1000 index portfolio of U.S. companies diversified by capitalization value and economic sector;
- a \$356 million actively managed S&P 500 portfolio and a \$2,585 million derivative portfolio covering the largest and most liquid U.S. equities; and
- various derivative portfolios totaling \$2,202 million that provide diversified exposure to major equity indices throughout the world.

PRIVATE MARKETS

Private markets include private equity, infrastructure and real estate investments. Consistent with our asset mix policy, we have increased our exposure to private markets to about 18 per cent of total investments in 2004 and we are progressing toward a target exposure of approximately 37.5 per cent over the next four years.

To facilitate this shift in our asset mix, we have restructured parts of our investment organization to bring origination and management services of private market investments under OMERS. Prior to February 2004, infrastructure and real estate investments were managed by Borealis Capital Corporation, in which OMERS had a minority interest. In February 2004, we acquired the interest in Borealis Capital Corporation we did not already own for a total cost of \$49.9 million. After adjusting for cash and other assets acquired from the transaction, the net cost will be recovered approximately one year from the date of purchase through the elimination of third party asset management fees, overhead cost synergies and increased revenue. We have included the results of Borealis Capital Corporation's operations from the date of purchase in the consolidated financial statements.

Following the acquisition, OMERS reorganized internally to ensure the optimal management of resources for our private markets asset classes – Private Equity, Infrastructure and Real Estate. OMERS Capital Partners was created to manage private equity investments; Borealis Infrastructure will focus on its original mission as Canada's leading infrastructure asset manager; and Oxford Properties Group assumed responsibility for all real estate operations.

Private Equity

Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly. These investments appeal to OMERS because history shows that they generate higher long-term returns than public equity portfolios over time and are generally held for five to ten years.

Our private equity investment strategy takes two forms. One involves investing as a limited partner in a fund managed by external specialists, who have demonstrated the ability to consistently outperform their peers over time in selecting investee companies. Generally, the relationships that we establish also permit a co-investment strategy, whereby we can make an additional direct investment in an investee company alongside the investment being made by the partnership. These investments as a limited partner and/or co-investor are generally less than \$100 million and exclude early stage venture capital. Our objective with this program is to ensure that OMERS is viewed as a preferred partner by top-tier fund managers, resulting in increased returns to OMERS. Examples of these types of investments include investments in funds managed by Texas Pacific Group, General Motors Investment Corp. and TD Capital.

Our second private equity strategy involves direct investments with other institutional investors, with OMERS staff identifying the opportunities, conducting the due diligence, structuring the transaction and generally leading or co-leading the investor consortium. These investments in later stage companies are generally less than \$200 million and exclude early stage venture capital commitments.

Currently \$1,460 million, or 4.0 per cent of our total net investment assets, is invested in private equity, with 50 per cent managed by approximately 40 external fund managers in Canada, the United States and Western Europe. The remaining 50 per cent is directly invested in companies. Our goal is to build private equity to approximately 10 per cent of total Fund assets over the next three to four years.

During 2004, private equity investments increased from \$914 million to \$1,460 million due to increased investments in funds plus direct investments in Affinia Group, Maax Holdings, Faiveley Transport, Honsel International Technologies and Cookie Jar Group (formerly Cinar).

Infrastructure

Infrastructure investments, especially in government-regulated sectors, can generate reliable returns that exceed those of the public markets. Individual investments generally require capital commitments for a minimum of 15 to 20 years. These investments typically generate consistent annual cash flows, a perfect fit in meeting our long-term pension obligations.

Through Borealis Infrastructure, OMERS has become a Canadian leader in the infrastructure sector. Our assets include majority or minority positions alongside other pension, corporate and government investors. At December 31, 2004, we had invested \$2,314 million in infrastructure with additional commitments of approximately \$900 million.

Our largest investment, representing approximately 30 per cent of our infrastructure investments, is a 31 per cent limited partnership interest in the Bruce Power nuclear facilities that supply about 15 per cent of Ontario's electricity. We have also invested in a pipeline system that exports crude oil from Alberta to the United States and serves refineries in six western and midwestern states. We own an interest in Confederation Bridge linking Prince Edward Island and New Brunswick under a concession agreement with the federal government until 2032. We have provided funding for the Detroit River Tunnel in the expectation of redeveloping it as a high-speed environmentally friendly Canada/U.S. train and truckway trade transportation corridor at the Windsor/Detroit border, the largest trade corridor in the world. We also have significant interest in Enwave Energy Corporation, which owns the largest deep lake water cooling service in the world and provides environmentally friendly air conditioning to Toronto's downtown office core.

In August 2004, a consortium including OMERS along with Ontario Teachers Pension Plan and Scottish and Southern Electric was selected to acquire the Scotland and the South of England gas distribution networks from National Grid Transco plc. OMERS holds a 25 per cent interest in the consortium. The total value of this investment will be approximately \$7.5 billion (£3.162 billion). OMERS will invest approximately \$700 million (£280 million). Third party debt will finance approximately two-thirds of the total investment. The combined Scotland and South of England network comprises approximately 73,000 kilometres of gas lines serving approximately 5.6 million customers. This transaction is expected to close in mid-2005.

Real Estate

Oxford Properties Group is responsible for executing our strategy of developing a global enterprise in the real estate sector. The strategy focuses on the ownership and management of high-quality and large-scale assets, diversified by property type and geographic market. Real estate investments of this nature generate reliable cash flows, facilitating our ability to meet current benefit obligations. Furthermore, properly maintained real estate generally appreciates in value over time in step with inflation, which offsets the inflation exposure of our pension liabilities.

At December 31, 2004, our portfolio consisted of 91 properties in Canada (62 office, 13 retail, 7 industrial, 6 multi-family residential and 3 sites where land is held for development) with a total area of 47 million square feet and 2,380 housing units, and with a current market value of \$6,618 million. This equates to a weighting based on market value of 64 per cent for office, 28 per cent for retail, 3 per cent for industrial, 4 per cent for residential, and 1 per cent for property held for development. In addition, Oxford manages a portfolio of private and public real estate securities and funds valued at \$280 million. The real estate portfolio is financed with \$2,395 million of long-term debt.

Oxford's office portfolio is diversified geographically in Canada across seven major urban markets. The largest concentration is in Toronto (representing approximately 60 per cent of the market value of the office portfolio) and includes the following properties – Royal Bank Plaza, BCE Place (50 per cent owned), Metro Centre and Waterpark Place. The other major urban centres are Calgary, Vancouver, Edmonton, Winnipeg, Ottawa and Montreal.

The retail portfolio comprises 13 shopping centres, primarily super regional and regional shopping centres, totaling 12.5 million square feet, located across Canada but predominantly in Toronto. The more significant properties include 50 per cent ownership interests in Yorkdale Shopping Centre, Square One Shopping Centre, Scarborough Town Centre and the Oshawa Centre.

OTHER INVESTMENT STRATEGIES

To better manage risk and enhance returns for the total fund, we employ a number of investment strategies that are designed to improve returns by mitigating uncompensated risks. These include managing exposure to foreign exchange fluctuations and use of derivatives.

Foreign Currency Management

OMERS uses foreign exchange forward contracts to manage our exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading to generate returns. At December 31, 2004, approximately \$14,100 million or 39 per cent of OMERS net investment assets were exposed to foreign exchange risk before foreign currency management. Our largest foreign currency management strategy hedges 50 per cent of exposure to 13 major currencies, narrowing their volatility relative to the Canadian dollar. Our currency management programs produced income of \$280 million in 2004, a decrease of \$483 million from 2003, as the appreciation of the Canadian dollar against the U.S. dollar and other currencies was significantly less in 2004 compared with 2003.

Active Derivative Programs

As part of our total derivative program, we manage a \$4,926 million dedicated core portfolio, notionally representing about 13.6 per cent of net investment assets, which uses derivative contracts to replicate non-Canadian equity index returns. This exposure to non-Canadian equities complements the global equities portfolios managed both internally and by external specialists. We also buy and sell equity options to improve the returns and mitigate the risk of our actively managed Canadian equity portfolio.

When appropriate in the search for higher returns, we enter into financial contracts, such as swaps, that provide the return from a bond, equity or other reference index in place of cash investments. The money required to support the contract is invested in a debt instrument that earns income in excess of the amount earned on the swap instrument.

Derivatives are a cost-effective and risk-efficient means of putting to work money allocated for eventual investment in major assets, such as real estate, infrastructure or private equities. Derivatives also enable us to rebalance the total fund asset mix, or the asset mix within a class, on short notice to adjust for market shifts.

The credit risk exposure for derivatives is the unpaid amount receivable from counterparties. We follow extremely prudent risk management policies, with our credit risk exposure limited to less than five per cent of total fund net assets. At year-end 2004, the credit risk exposure was 0.5 per cent, or \$194 million with all counterparties required to have a minimum "A" credit rating.

FACTORS AFFECTING FUTURE RESULTS

There are many factors that will impact future returns of the Plan. It is anticipated that the most significant will be general business conditions, monetary policy of central banks and changes in laws and regulations impacting OMERS investments.

General Business and Economic Conditions in the Regions in which We Invest

We invest in Canada, the United States, and other countries. Our earnings are significantly affected by the general business and economic conditions in the geographic regions in which we invest. These conditions include short-term and long-term interest rates, inflation, fluctuations in the debt and capital markets, exchange rates, the strength of the economy, and the level of investment we have in a specific region.

Monetary Policy

Monetary policies of central banks impact the general business conditions in the regions where we invest. We are most affected by the monetary policies of the Bank of Canada and the Federal Reserve System in the United States. Changes in the general level of interest rates directly affect investment income through the interest we earn on new interest bearing investments as well as the value of existing holdings. The valuation of our actuarial liability is also impacted by changes to long-term interest rates. Changes in monetary policy and in the financial markets are beyond our control and difficult to predict or anticipate.

Changes in Laws and Regulations

Laws and regulations have been put in place by various governments and regulators to protect the financial and other interests of OMERS members. Changes to laws and regulations, including changes in their interpretation or implementation, could affect OMERS by limiting or improving our ability to make investments and collect contributions.

The February 2005 Federal Budget proposed to eliminate the 30 per cent limit on foreign property held by pension funds. If enacted, this would allow OMERS the flexibility of adding value by participating to a greater extent in investment opportunities outside Canada.

CORPORATE GOVERNANCE – OUR EXPECTATIONS OF OTHERS

OMERS strives for best governance practices in its own operations, consistent with the expectations it has of companies in which it invests.

OMERS beneficially owns shares in over 2,000 publicly traded companies around the world and prefers to invest in companies governed by directors who understand that their primary duty is to represent the best interests of the shareholders by ensuring management has a well thought out strategy for growing the business, running it efficiently and achieving long-term profitability. OMERS believes that companies that have strong corporate governance are generally more capable of creating value for shareholders.

The proxy vote is an important asset of a pension fund. OMERS exercises its ownership rights by voting proxies diligently in order to optimize the long-term value of its investments. Our Proxy Voting Guidelines set out OMERS policy on corporate governance matters and indicate how we will likely vote on individual issues. We consider the quality of a company's overall governance in deciding whether to vote for or against specific proposals. Votes are cast against those proposals we feel would dilute shareholder value.

The Proxy Voting Guidelines and our voting record on major proposals for Canadian companies can be found on our web site, www.omers.com.

GOVERNANCE CONCERNS

During 2004, OMERS voted a total of 17,821 ballots covering 2,280 shareholder meetings globally. In Canada, OMERS cast 2,031 ballots in 287 shareholder meetings. Outside of Canada, OMERS cast 15,790 ballots in 1,993 shareholder meetings.

Some of the more notable corporate concerns we voted on in 2004 included:

Stock Option Plans

Attempts by corporate managers to expand their stock option plans, to re-price existing options where the strike

price is too high for them to make money in the short term, and the granting of options to directors were opposed. Excessive stock options dilute the value of our holdings, are prone to enrichment abuse by executives, and in the case of directors, align their interests with those of management, not with shareholders. OMERS voted against almost 80 per cent of the stock option plan proposals in 2004.

Independent Directors

The lack of fully independent directors on audit, compensation and nominating committees continues to be a governance concern. OMERS withheld its votes on several occasions where nominees to these committees were not independent of management.

Auditors

Accounting firms retained to audit the financial statements continue to receive a high ratio of fees from consulting work. This is an unacceptable practice and we expressed our concern by withholding votes from many directors sitting on audit committees, or by voting against the ratification of the external auditor proposed by the company.

Inadequate Attendance

OMERS withheld its vote from directors on several occasions because of inadequate attendance at board meetings. Directors should spend sufficient time on management oversight and other fiduciary duties by attending all regular board meetings.

Better Disclosure

OMERS believes that shareholders have a right to know about the activities of their companies and how these might impact shareholder value. We supported several shareholder proposals in 2004 calling for more disclosure by companies. These proposals were wide-ranging, and included requests for greater disclosure regarding senior management compensation arrangements, pension benefits or improved environmental disclosure.

Shareholder Proposals on Compensation

OMERS also supported shareholder proposals regarding compensation. These proposals generally required that incentive compensation be tied to performance. OMERS believes that incentive compensation should be structured to reward the achievement of predetermined performance benchmarks over a period of several years and should not be used to reward mediocrity, failure or short-term performance.

2004 PROXY VOTING RECORD



BOARD GOVERNANCE

A HISTORY OF LEADERSHIP IN PENSION PLAN GOVERNANCE

Over our 43-year history, OMERS has continuously evolved and improved its governance practices. Effective pension plan governance is the best method of ensuring that our four-decade record of keeping the pension promise will be extended. In recent years, OMERS has put in place many new governance practices, including the measures listed below.

- OMERS directors receive mandatory orientation in board operations and governance, attend relevant seminars and conferences, and have an annual education budget.
- The Board established Audit and Governance sub-committees in 1998 and 1999 respectively, which met as required.
- Five years ago, the Board initiated a self-evaluation program, using independent advisors, to review its own effectiveness and identify areas for improvement. Surveys were conducted in 1999, 2001 and 2003. As a result of the program, several governance improvements have been implemented at OMERS:
 - An Enterprise Risk Management Framework to identify, manage and monitor risk.
 - A Corporate Governance and Oversight Framework outlining the Board's role in approving strategies and policies for each core business line, and specifying the reports it must receive to ensure appropriate Board oversight.
 - In 2002, OMERS was one of the first organizations to adopt strict auditor independence guidelines by separating the audit and non-audit functions. The accounting firm that provides financial statement audit services is prohibited from providing other consulting services.
 - In 2003, the Board approved a Code of Ethics and Professional Conduct, consolidating existing policies and adding new requirements, that applies to OMERS staff and Board members, who are required to affirm their compliance each year.

GOVERNANCE INITIATIVES IN 2004

At the Board's direction, OMERS added internal executive legal and audit positions to enhance reporting and accountability.

The Board established an Ad Hoc Board Committee to examine its own governance structure and processes. The Committee work focused on increasing the effectiveness of the use of the Board's time to allow more fulsome discussions of key strategic issues and to clarify and define the roles and mandates of the Board, standing committees, and OMERS staff.

The Committee's report and recommendations were approved in November 2004 and led to the Board adopting the following governance practices:

- Establishment of new Human Resources and Governance committees and adopting membership guidelines for each of the five standing committees.
- Extending the Board education program to include mandatory corporate director certification from The Directors College, operated in conjunction with The Conference Board of Canada and McMaster University. The course encompasses areas such as guiding strategic direction and risks; monitoring financial strategy, risks and disclosure; guiding human performance; and enterprise risk management.
- Enacting a provision to allow the election of Board chairs and vice chairs to a second term to facilitate better continuity.

Board Mandate

As a fiduciary, the OMERS Board acts in good faith, taking into account the best interests of the plan as a whole. The Board's authority is set out in the *OMERS Act and Regulation*. Responsibilities include:

- setting OMERS strategic direction,
- allocating financial resources,
- recommending plan design changes (subject to provincial government approval),
- determining investment asset mix, approving contribution rates, monitoring organizational effectiveness, and establishing executive compensation policy.

OMERS BOARD OF DIRECTORS



RICK MILLER



BILL RAYBURN



PETER ROUTLIFF



MARIANNE LOVE



BRIAN O'KEEFE



JOHN SABO

ADVISORS TO THE BOARD

Actuary

Watson Wyatt Worldwide

Auditors

PricewaterhouseCoopers LLP

Legal Advisor

Osler, Hoskin & Harcourt LLP

Master Custodian

State Street Canada Inc.

Medical Advisor

Dr. D. Lewis

EMPLOYER REPRESENTATIVES

JANUARY 2005

Bill Rayburn

County of Middlesex

Marianne Love

Association of Municipalities of Ontario

Frederick Biro, Chair

Peel Police Services Board

John Sabo

York Catholic District School Board

Michael Power

Municipality of Greenstone

Ann Mulvale

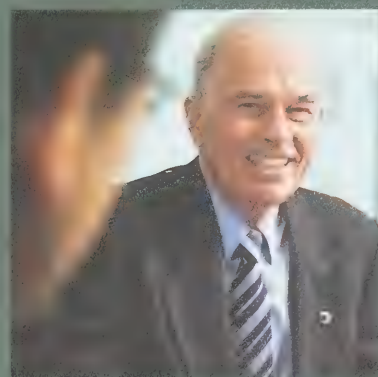
Mayor, Town of Oakville



DAVID CARRINGTON



DAVID KINGSTON



DICK MCINTOSH



FREDERICK BIRO



MICHAEL POWER



ANN MULVALE

EMPLOYEE REPRESENTATIVES JANUARY 2005

Rick Miller

Ontario Professional Fire Fighters Association

Brian O'Keefe

Canadian Union of Public Employees

David Carrington

Canadian Union of Public Employees

Dick McIntosh

Retired Member

David Kingston

York Regional Police

Peter Routliff

International Brotherhood of Electrical Workers

GOVERNMENT OF ONTARIO REPRESENTATIVE

Vacant

Board Membership

OMERS is governed by 13 directors – six employee representatives, including one retired member, six employer representatives and one provincial government representative.

Board members are appointed by the Ontario government, normally for a maximum of two three-year terms.

This model is effective since employers and employees are equally responsible for plan contributions, as well as sharing funding gains and losses. Board representatives focus on what is important – investment returns that ensure reliable pension income for our members, competitive benefits at reasonable cost, and responsive pension services.

Board Attendance

Board attendance in 2004 was 96 per cent.

Board Independence

The Board appoints the CEO, who is not a member of the Board, and reviews his/her performance annually. Day-to-day management of OMERS is delegated to the CEO.

The Board also appoints the external auditor, master custodian and actuary, and has access to independent legal advice. The Board has regular *in camera* meetings without management present. The Board holds two strategic planning sessions each year and requires management to develop a multi-year plan for which they are held accountable. The Board seeks advice from outside experts in plan administration and fund investment to assist Board members in their oversight responsibilities.

Accountability and Disclosure

OMERS is active in reporting to plan members and employers on how their contributions are managed and invested. The Board holds two meetings a year with plan members and maintains frequent contact through consultations with stakeholder groups on key issues, the annual report, web site, regular newsletters, benefit statements, presentations and correspondence. As part of its commitment to open disclosure, in 2005, the Board will provide more information on Board governance on OMERS web site, including a summary of the Board's decisions following each Board meeting.

Board Committees

As of January 1, 2005, the Board has five standing committees:

Investment Committee (Committee of the Whole)

Approves asset mix policy, reviews and approves investment policy and goals, reviews and approves major investment decisions.

Pension Committee

Reviews actuarial valuations, ensures stability of contribution rates, reviews plan benefit changes and oversees pension administration policy.

Audit Committee

Meets with the internal and external auditors and approves their annual audit plans. Reviews the audited financial statements and the effectiveness of OMERS system of internal controls.

Human Resources and Compensation Committee

Reviews human resources policies, and executive compensation and performance.

Governance Committee

Reviews the mandate of the Board and its committees, evaluates Board orientation and education programs, reviews the composition and qualifications for Board members.

OMERS Sponsor Governance Model

OMERS is a multi-employer, multi-union/association plan, with the Government of Ontario serving as the plan sponsor. In 2002, OMERS provided the government with a recommendation that the governance of the plan be devolved from the government to a new Sponsors' Committee comprised of representatives of the plan's sponsors, with authority over plan design. The Board would continue in its role as plan administrator, overseeing investments and plan administration in the best interests of all beneficiaries.

While the government has not yet acted on this recommendation, OMERS and many of its stakeholders continue to support a change to the plan's overall governance model. Any decision on a change to OMERS governance remains up to the government. In the meantime, OMERS Board continues to administer the plan in the best interests of its members.

ACTUARIAL OPINION

ACTUARIAL OPINION AS AT DECEMBER 31, 2004 FOR THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System (the "Basic Plan") was conducted as at December 31, 2004 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purposes of the valuation were to determine the funded status of the Basic Plan as at December 31, 2004 and to examine the adequacy of the ongoing contribution structure to maintain the Basic Plan in a satisfactory actuarial and financial position.

The results of the actuarial valuation of the Basic Plan disclosed total going concern Actuarial Liabilities of \$37,774 million in respect of benefits accrued for service to December 31, 2004. The Actuarial Assets at that date were \$36,811 million, indicating a going concern Actuarial Deficit of \$963 million. In our opinion, based on the current benefit provisions, the anticipated rates of contributions as prescribed in the OMERS Regulations, together with existing assets and the assumed future investment earnings, will likely fall short of what is needed to provide for all future benefits under the Basic Plan. If actuarial surplus is not available to offset the existing deficit and to subsidize future contributions, increases in the contributions will be required in the future.

We have considered the funded position of the Basic Plan, assuming it had been wound up on December 31, 2004. In our opinion, the value of the Plan assets would have been equal to 75 per cent of the actuarial liabilities if the Plan had been wound up on that date.

Full earnings pension benefits are benefits provided (using a Retirement Compensation Arrangement ("RCA")) in excess of the maximum pension benefits under the Basic Plan and are not fully pre-funded. The Actuarial Deficit in respect of the full earnings pension plan at December 31, 2004 (determined using assumptions consistent with those used for the Basic Plan except that the discount rate is adjusted to approximate the effect of the 50 per cent refundable tax under the RCA) was \$137 million. Contributions, based on the top-tier Basic Plan contribution rates, are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Basic Plan. It is expected that if contributions to the RCA continue, the annual cash inflow will be more than sufficient to cover the annual benefit payments for the foreseeable future.

The actuarial valuation of OMERS as at December 31, 2004 was conducted using membership data as at December 31, 2003 and financial information as at December 31, 2004 supplied by the Board. The December 31, 2003 membership was adjusted for the following:

- membership movements to November 30, 2004,
- actual inflationary increases to pensions in payment for 2004, and
- the estimated increase in earnings for 2004.

We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purposes of the valuation,
- the assumptions adopted are, in aggregate, appropriate for the purposes of the valuation, and
- the methods employed in the valuation are appropriate for the purposes of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

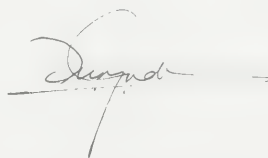
The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

Respectfully submitted

WATSON WYATT & COMPANY



Ian Markham
Fellow, Canadian Institute of Actuaries
February 24, 2005



Andrew K. Fung, F.S.A.
Fellow, Canadian Institute of Actuaries

RESPONSIBILITIES OF MANAGEMENT, THE ACTUARY AND EXTERNAL AUDITORS

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the Annual Report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees. In addition an internal audit function, reporting directly to the Audit Committee, has been established to review and support OMERS system of internal control.

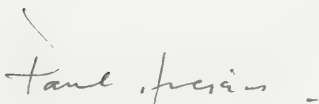
The Board is responsible for approving the annual consolidated financial statements. The Audit Committee, which is comprised of directors who are not officers or employees of OMERS, assists the Board in executing this responsibility. The Audit Committee meets regularly with management and the internal and external auditors to review the scope and timing of their respective audits as well as to review any internal control or financial reporting issues and their resolution. The Audit Committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the Board. It is the actuary's responsibility to carry out annual valuations of the actuarial liabilities of the System in accordance with accepted actuarial practice and to report thereon to the Board. The results of the actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality, turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.

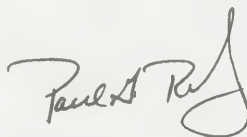
The external auditors are also appointed by the Board. Their responsibility is to report to the Board whether the consolidated financial statements present fairly, in all material respects, the net assets, actuarial liabilities and surplus/(deficit) of the Fund and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings arising from their audit related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors rely on the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the annual report.

Based on my knowledge, the annual financial statements, together with the other financial information included in the Annual Report, fairly present in all material respects the net assets, changes in net assets and actuarial liabilities of OMERS as of the date and for the periods presented in the Annual Report.



Paul G. Haggis
President and Chief Executive Officer



Paul G. Renaud
Senior Vice President
and Chief Financial Officer

Toronto, Canada
February 24, 2005

AUDITORS' REPORT

TO THE ONTARIO MUNICIPAL EMPLOYEES RETIREMENT BOARD

We have audited the consolidated statement of net assets and the consolidated statement of application of net assets to actuarial liabilities and surplus/(deficit) of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2004 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the net assets and actuarial value of net assets over actuarial liabilities of the Fund as at December 31, 2004 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 24, 2005

CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions)

As at December 31,

	2004	2003
ASSETS		
Investments (note 3)	\$ 40,955	\$ 39,428
Amounts due from pending trades	228	344
Other assets (note 6)	579	493
Total Assets	41,762	40,265
LIABILITIES		
Investment liabilities (note 5)	6,218	7,178
Due to administered pension funds	851	496
Amounts payable from pending trades	319	334
Other liabilities	116	164
Total Liabilities	8,107	8,172
NET ASSETS	\$ 35,855	\$ 32,093

Guarantees, commitments and contingencies are discussed in note 15.

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board



Member



Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions)

For the year ended December 31,

CHANGES DUE TO INVESTMENT ACTIVITIES

	2004	2003
Net investment income (note 9)	\$ 3,542	\$ 3,542

CHANGES DUE TO PENSION ACTIVITIES

Contributions (note 11)	1,406	446
Benefits (note 12)	(1,498)	(1,356)
Pension administrative expenses (note 13)	(43)	(44)

	(137)	(954)
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TOTAL INCREASE

	2,588	2,588
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Net assets at beginning of year	29,505	29,505
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NET ASSETS AT END OF YEAR

	\$ 32,093	\$ 32,093
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The accompanying notes to the consolidated financial statements are an integral part of this statement.

CONSOLIDATED STATEMENT OF APPLICATION OF NET ASSETS TO ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT)

(Millions)

As at December 31,

BASIC PLAN (note 7)

	2004	2003
Actuarial liabilities	\$ 37,771	\$ 35,466
Actuarial valuation adjustment of net assets	(1,368)	(3,888)
(Deficit)/Surplus	1,961	509

NET ASSETS IN BASIC PLAN

	32,087	32,087
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RETIREMENT COMPENSATION ARRANGEMENT (note 8)

Actuarial liabilities	169	69
Deficit	(137)	(63)

NET ASSETS IN RETIREMENT COMPENSATION ARRANGEMENT

	6	6
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NET ASSETS

	\$ 32,093	\$ 32,093
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The accompanying notes to the consolidated financial statements are an integral part of this statement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Year ended December 31, 2004

NOTE 1 - DESCRIPTION OF THE PLAN

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan set up and administered under the *Ontario Municipal Employees Retirement System Act and Ontario Regulation 890 (OMERS Act)*. The Ontario Municipal Employees Retirement Fund (the Fund) is continued pursuant to Section 5 of the *OMERS Act*. The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency. The Plan is registered under the *Pension Benefits Act (PBA)* of Ontario, Registration #0345983.

- a) **Funding** – The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act*, the *Income Tax Act (Canada) (Income Tax Act)* and the PBA, according to the actuarial needs of the Plan.
- b) **Pensions** – The normal retirement age (NRA) is 65 years for all OMERS members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings. The OMERS pension is integrated with the Canada Pension Plan.
- c) **Death Benefits** – Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefit may be paid in the form of a survivor pension, lump sum payment or both.
- d) **Withdrawals from the Plan** – Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefit from OMERS.
- e) **Escalation of Pensions** – Pension benefits are protected from inflation through an annual adjustment equal to 100 per cent of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.
- f) **Income taxes** – OMERS is a Registered Pension Plan as defined in the *Income Tax Act* and as such is not subject to income taxes for contributions or investment income received. The operations of certain entities holding private equity, infrastructure or real estate investments may be taxable where OMERS has taken over control of a previously taxable entity.
- g) **Retirement Compensation Arrangement** – The Retirement Compensation Arrangement (RCA) was established by OMERS for the full earnings plan to provide supplementary pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. The determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared on a going concern basis and present the information of the Ontario Municipal Employees Retirement Fund including the Retirement Compensation Arrangement as a separate financial reporting entity independent of the employers and plan members.

Certain comparative data has been restated to conform with the current year presentation.

Consolidation

The consolidated financial statements include the assets, liabilities and the changes in net assets of OMERS and its subsidiaries, as well as its proportionate share of the assets, liabilities, and changes in net assets of entities where there is joint ownership.

Intercompany transactions and balances are eliminated in arriving at the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets, the consolidated statement of changes in net assets and the consolidated statement of application of net assets to actuarial liabilities and surplus/(deficit). Actual results could differ from these estimates.

Investments

All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date.

Investments are stated at fair value. Fair value represents the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Where a public market price is not available for an investment asset or liability, a suitable method of valuation is used including the use of: discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. External appraisers may be used to provide independent valuations or verify the reasonableness of internal valuations. At a minimum, for private market investments external valuations will be performed once every three years.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. The change in the difference between fair value and cost of investments at the beginning and end of each year is the unrealized appreciation/depreciation in the fair value of investments and is reflected in net investment income/loss in the consolidated statement of changes in net assets.

Fair values of investments are determined as follows:

- i) Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.
- ii) Canadian bonds and debentures, real return bonds, absolute return investments, and public equities are valued at year-end quoted market prices where available. For these instruments and for mortgages and private debt where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields, comparable securities, independent asset appraisals, and financial analysis.
- iii) Private markets investments include investments in private equity either directly or as a limited partner through a limited partnership, infrastructure and real estate assets. For private market investments the completion of a purchase or sale of an identical or similar investment is often the most objective determination of fair value. Other third party events can also provide input. While not exact, appraisal or valuation procedures are able to provide estimates or identify likely ranges that a reasonable counterparty would pay for such assets. OMERS private markets investments are valued as follows:

The fair value of investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values is equal to the appraised amount.

The fair value of non-operating and/or start-up private markets investments is equal to cost until there is external evidence to support a change in valuation or the investment is judged to have reasonably predictable future revenue streams.

The fair value of private markets investments acquired within the current fiscal year is equal to cost, unless an independent appraisal/valuation is conducted or unless there is a specific and objectively verifiable reason to change the value of an investment.

The fair value of a private fund investment where OMERS ability to access information on underlying individual fund investments is prescribed, such as under the terms of a limited partnership agreement, is equal to the value provided by the fund's General Partner unless there is a specific and objectively verifiable reason that management becomes aware of to change the value of the investment.

- iv) Derivatives, including swap, futures, option and forward contracts, are valued at quoted market prices, where available, or discounted cash flows using current market yields, where quoted market prices are not available.

Investment Income/Loss

Investment income/loss includes interest, dividends and operating income/loss from consolidated investment entities, which is recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Where OMERS is able to exercise significant influence over the operations of a private market investment, then net income is recognized on the equity basis. For private investments where OMERS is not able to exercise significant influence, income is recognized as dividends or distributions are declared.

Investment Liabilities

Investment liabilities include debentures, mortgages and other debt obligations, primarily related to investments in real estate and infrastructure and securities lending collateral. The fair value of investment liabilities is estimated using discounted cash flows based on current market yields, except for items that are short-term in nature that are carried at their cost amount.

Amounts Due/Payable from Pending Trades

For securities transactions, the fair value of amounts due from pending trades and amounts payable from pending trades approximate their carrying amounts due to their short-term nature. For derivative contracts unrealized gains and losses are included in amounts due/payable from pending trades.

Foreign Currency Translation

Certain OMERS investments are denominated in foreign currencies. The fair values of such investments are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the settlement is recognized in realized gains/losses on disposal of investments.

Other Assets

Other assets are comprised of contributions and other receivables, accounts receivables from the operations of the Plan, accrued income, infrastructure and real estate operational accounts receivable and goodwill.

Goodwill is calculated as the difference between the acquisition cost of an investment and the fair value of tangible and intangible net assets acquired and represents the cost of assuming control of those net assets. Goodwill is not amortized but, at each year-end subsequent to the acquisition, the value is reassessed and impairment, if any, is reflected in investment income/loss.

Future Income Taxes

Future income taxes which arise in taxable investment entities are calculated by applying the expected future tax rate to the difference between the fair value of assets and liabilities and the related tax basis.

Due to Administered Pension Funds

The administered pension plans which form part of the Fund are administered on behalf of The Board of Trustees of the Ryerson Polytechnic University, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor Fund and are credited with income/loss based upon their proportionate share of the fair value of the investments of the Fund. OMERS is authorized under the terms of the various management agreements to recover its expenses for administering the aforementioned plans.

The value of amounts due to administered pension funds reflect the contractual liability of OMERS as at the financial statement date.

Other Liabilities

Other liabilities include amounts received from employers for supplementary benefits that are now part of the basic plan and other payables relating to the operation of the Plan. The supplementary benefit amounts share in investment income and may be used by the employer to fund current year contributions.

Accrued Pension Benefits

The value of accrued pension benefits is based on an actuarial valuation prepared by an independent firm of actuaries. This obligation is measured using actuarial assumptions and methods adopted by the Board for the purpose of establishing the long-term funding requirements of OMERS.

Actuarial Asset Value Adjustment

The actuarial value of assets has been determined by amortizing the annual investment returns above or below the actuarial long-term rate of return assumption over a five-year period.

Contributions

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence, conversion of normal retirement age and contract adjustments and transfers from other pension plans are recorded when the purchase amount is received.

Benefits

Benefit payments to retired members are recorded as they are due. Commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits for active members are recorded as part of accrued actuarial liabilities.

NOTE 3 – INVESTMENTS

Investments before allocating the effect of derivative contracts and investment related assets and liabilities are as follows:

(Millions)	2004		2003	
	Fair Value	Cost	Fair Value	Cost
PUBLIC MARKET INVESTMENTS				
INTEREST BEARING INVESTMENTS				
Cash and short-term deposits	\$ 6,411	\$ 6,411	\$ 9,193	\$ 9,193
Canadian bonds and debentures	5,836	5,625	5,121	4,932
Real return bonds	1,266	1,028	872	736
Mortgages and private debt	1,562	1,472	1,598	1,511
	15,075	14,536	16,784	16,372
PUBLIC EQUITY				
Canadian public equities	6,635	4,202	6,090	4,112
Non-Canadian public equities ⁽¹⁾	5,570	7,603	7,294	6,689
	12,205	11,805	13,384	10,801
TOTAL PUBLIC MARKET INVESTMENTS	30,283	26,341	30,168	27,173
PRIVATE EQUITY				
Canadian private equities ⁽²⁾	611	610	450	545
Non-Canadian private equities	849	928	464	607
	1,460	1,538	914	1,152
INFRASTRUCTURE INVESTMENTS	2,314	2,332	1,426	1,532
REAL ESTATE INVESTMENTS	6,898	7,077	6,920	7,037
TOTAL INVESTMENTS	40,955	37,288	39,428	36,894
INVESTMENT RELATED ASSETS				
Amounts due from pending trades	225	34	344	74
Other investment assets (note 6)	437	500	449	449
	662	534	793	523
INVESTMENT RELATED LIABILITIES				
Investment liabilities (note 5)	(5,219)	(5,198)	(7,178)	(7,072)
Amounts payable from pending trades	(219)	(1)	(334)	(28)
	(5,438)	(5,197)	(7,512)	(7,100)
NET INVESTMENT ASSETS	\$ 30,102	\$ 32,025	\$ 32,709	\$ 30,317

(1) Includes absolute return investments.

(2) Includes resource properties with a fair value of \$134 million (2003 – \$94 million).

OMERS participates in a securities lending program whereby it lends securities it owns to others. For securities lent, OMERS receives a fee and holds cash or securities of higher value as collateral. As at December 31, 2004, securities with an estimated fair value of \$2,162 million (2003 – \$4,246 million) were loaned out, while collateral held had an estimated fair value of \$2,267 million (2003 – \$4,408 million) of which \$1,250 million (2003 – \$3,765 million) was cash collateral invested in short-term interest bearing investments.

At December 31, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets.

(Millions)	2004 Aggregate			2003 Aggregate		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Public market investments	2	\$ 733	\$ 741	2	\$ 733	\$ 741
Private market investments	3	1,362	1,223	3	1,362	1,223
	5	\$ 2,095	\$ 1,964	5	\$ 2,095	\$ 1,964

The public market investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets are interest bearing securities issued by the Government of Canada. Private market investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include a limited partnership interest in Bruce Power, a Royal Bank of Canada structured note and real estate ownership interests in the Royal Bank Plaza and Yorkdale Shopping Centre properties, both of which are located in Ontario.

OMERS net investment assets by major asset class are as follows:

(Millions)	Public Markets					
	Interest Bearing	Public Equity	Private Equity	Infrastructure	Real Estate	Total
As at December 31, 2004						
Investment assets	\$ 16,075	\$ 16,208	\$ 1,460	\$ 1,314	\$ 5,898	\$ 40,855
Allocation of cash and short-term deposits	(805)	86	-	32	57	-
Investment related assets	86	244	12	40	283	665
Investment related liabilities	(1,389)	(820)	(8)	(1,138)	(2,816)	(5,431)
Net investment assets	\$ 13,621	\$ 16,318	\$ 1,474	\$ 1,289	\$ 4,422	\$ 36,124

(Millions)	Public Markets					
	Interest Bearing	Public Equity	Private Equity	Infrastructure	Real Estate	Total
As at December 31, 2003						
Investment assets	\$ 16,784	\$ 13,384	\$ 914	\$ 1,426	\$ 6,920	\$ 39,428
Allocation of cash and short-term deposits	(184)	53	38	8	85	-
Investment related assets	65	362	5	19	342	793
Investment related liabilities	(3,768)	(337)	(10)	(417)	(2,980)	(7,512)
Net investment assets	\$ 12,897	\$ 13,462	\$ 947	\$ 1,036	\$ 4,367	\$ 32,709

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate, market and credit risk. OMERS has set formal policies and procedures that establish a target asset mix among interest bearing, absolute return, public equity, private equity, infrastructure and real estate investments. OMERS policies also require diversification of investments within categories, and set limits on the size of exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 4).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments and entering into derivative contracts that provide exposure to currencies other than the Canadian Dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. OMERS has put in place a currency overlay program whereby a portion of OMERS foreign currency exposure is hedged through the use of foreign exchange forward contracts. The Fund also takes active trading positions in foreign currencies with the objective of adding value. The Fund's total currency exposure, impact of the currency overlay program (hedging and trading) and the net currency exposure as at December 31 are as follows:

Currency Exposure

(Millions Cdn dollar equivalent)	2004 Fair Value				2003 Fair Value			
	Currency Overlay				Currency Overlay			
	Total Exposure	Hedging	Trading	Net Exposure	Total Exposure	Hedging	Trading	Net Exposure
Canada	\$ 22,053	\$ (5,962)	\$ (0)	\$ 16,091	\$ 20,489	\$ 5,185	\$ (94)	\$ 15,210
United States	7,490	(5,133)	(130)	2,227	6,363	(2,705)	(465)	3,193
Euro Countries	2,116	(924)	(70)	1,122	1,862	(838)	21	1,045
United Kingdom	1,153	(967)	26	212	1,246	(608)	76	714
Japan	1,313	(628)	53	738	1,029	(515)	163	677
Other Pacific	861	(345)	52	568	737	(208)	35	564
Other Europe	672	(150)	32	554	616	(256)	55	415
Emerging Markets	524	(80)	51	495	367	(55)	209	521
	\$ 36,152	\$ -	\$ -	\$ 36,152	\$ 32,709	\$ -	\$ -	\$ 32,709

The above table allocates the total and net currency exposure of Canadian assets backing derivatives to the currency of the underlying asset or index from which the derivative contract derives its value.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuations in interest rates. The risk arises from the potential impact of different interest rates on fair values of the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long-term nature of pension benefits (notes 7 and 8), OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are mostly affected by equity markets and short-term changes in interest rates. The interest bearing portfolio has guidelines on duration and distribution, which are designed to mitigate the risk of interest rate volatility.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of the securities, are as follows:

(Millions)	2004					2003	
	Term to Maturity					Total	Average Effective Yield
	Within 1 Year	1 to 5 Years	Over 5 years	Total	Average Effective Yield		
Cash and short-term deposits	\$ 6,311	\$ -	\$ -	\$ 6,311	2.08%	\$ 9,193	2.08%
Canadian bonds and debentures	1,304	1,630	2,813	5,747	4.34%	5,121	4.34%
Real return bonds	-	-	1,264	1,264	2.78%	872	2.78%
Mortgages and private debt	45	674	341	1,060	5.09%	1,598	5.09%
	\$ 7,660	\$ 2,304	\$ 4,418	\$ 14,382	3.13%	\$ 16,784	3.09%

Average effective yield represents the weighted average rate required to discount future contractual cash flows to current market value.

After giving effect to the derivative contracts and investment related assets and liabilities a 1 per cent increase/decrease in nominal interest rates would result in an approximate decrease/increase in the value of interest bearing investments of 6.1 per cent (2003 – 6.1 per cent). Similarly, a 1 per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of real return bonds of 12.5 per cent (2003 – 11.1 per cent).

Canadian bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt of \$2,229 million (2003 – \$1,630 million) comprises 31.4 per cent (2003 – 27.2 per cent) of the fair market value of Canadian bonds and debentures (including real return bonds).

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS invests in a diversified portfolio of investments, based on Board approved policies, and utilizes derivative financial instruments, to mitigate the impact of market risk.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria, which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 4.

NOTE 4 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts, the value of which is derived from underlying assets or indices. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets.

The Fund uses derivative financial instruments, when appropriate, to manage its asset mix and to assist in the management of financial risks, including interest rate and foreign exchange risks. In certain circumstances, derivatives are also used to increase returns or to replicate investments synthetically.

Types of contracts currently entered into by OMERS include:

Interest Rate Swaps

Interest rate swaps involve contractual agreements between two counterparties to exchange fixed and floating interest payments based on notional amounts. Interest rate swaps are used by OMERS to manage its interest rate exposure.

Bond and Equity Index Swaps

Bond and equity index swaps involve contractual agreements between two counterparties to exchange a series of cash flows based on changes in value of indices. OMERS uses bond and equity index swaps to manage its exposure to specific bond or equity indices without actually purchasing or selling the securities.

Bond and Equity Options

Bond and equity options are contractual agreements where the seller (writer) gives the right but not the obligation to a counterparty to buy (call option) or sell (put option) a specified quantity of a financial instrument on or before a specified future date at a predetermined price. The financial instruments may include a basket of bonds or equities, a bond or equity index or a single issue bond or equity instrument. The seller receives a premium from the counterparty for this right. Options may be exchange traded or transacted in the over-the-counter market. Exchange traded options are subject to daily cash settlement of changes in fair value. Options are used by OMERS to manage the market risk exposure of financial instruments without directly purchasing or selling the securities.

Equity Index Futures Contracts

Futures contracts are agreements to either buy or sell specified equity indices at a specified price and date in the future. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash settlement of changes in fair value. OMERS uses equity index futures to modify exposures without directly purchasing or selling the underlying assets.

Bond Forward Contracts

Bond forward contracts are contractual agreements to buy or sell a basket of bonds, a bond index or a single issue bond at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market. OMERS uses bond forward contracts to modify exposures without directly purchasing or selling the underlying assets.

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future. OMERS uses foreign exchange forward contracts to provide exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading to add value to the Fund.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or periodic prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following table summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the consolidated financial statements.

- **Fair value:** Unrealized gains or losses from derivative contracts are recorded in the consolidated statement of net assets based on the fair value of the derivative contract. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.
- **Credit risk replacement cost:** represents the loss to which OMERS is exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts which permit offsetting of positions or any collateral, which may be held.

(Millions)	2004					2003		
	Notional Value	Fair Value			Notional Value	Fair Value		
		Assets (1)	Liabilities			Assets (1)	Liabilities	
INTEREST RATE CONTRACTS								
Interest rate swap contracts	\$ 1,283	\$ 19	\$ (23)	\$ 1,152	\$ 14	\$ (10)		
Bond index swap contracts	480	4	—	594	7	—		
Bond options – purchased	111	—	—	200	6	—		
Bond forward contracts	—	—	—	80	—	—		
	1,874	23	(23)	2,026	27	(10)		
EQUITY CONTRACTS								
Equity index futures contracts	5,045	1	(5)	4,720	12	—		
Equity index swap contracts	985	27	—	849	30	—		
Equity options written	70	—	(1)	42	—	(1)		
	6,100	28	(6)	5,611	42	(1)		
FOREIGN EXCHANGE FORWARD CONTRACTS								
	13,250	143	(189)	18,093	270	(306)		
TOTAL	\$ 21,224	\$ 194	\$ (210)	\$ 25,730	\$ 339	\$ (317)		

(1) The credit risk replacement cost is equal to the fair value of the assets.

The term to maturity based on notional value is as follows:

(Millions)	2004				2003			
	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total
Under 1 year	\$ 1,381	\$ 5,100	\$ 13,250	\$ 20,731	\$ 1,345	\$ 5,611	\$ 18,093	\$ 25,049
1 to 5 years	427	—	—	427	361	—	—	361
Over 5 years	66	—	—	66	320	—	—	320
	\$ 1,874	\$ 5,100	\$ 13,250	\$ 21,224	\$ 2,026	\$ 5,611	\$ 18,093	\$ 25,730

NOTE 5 – INVESTMENT LIABILITIES

(Millions)	2004	2003
Long-term debt (a)	\$ 3,313	\$ 2,730
Payable under securities lending program (b)	1,250	3,765
Deferred revenue	248	261
Payables	237	207
Future income taxes (c)	171	215
	\$ 5,219	\$ 7,178

(a) Long-term debt is as follows:

	2004			2003		2003 Weighted Average Interest Rate
	Fair Value	Cost	Weighted Average Interest Rate	Fair Value	Cost	
Real estate (d)						
Secured debt (i)	\$ 1,060	\$ 989	5.18%	\$ 1,192	\$ 1,125	5.67%
Series A debentures (ii)	530	500	4.57%	516	500	5.02%
Series B debentures (iii)	517	500	3.60%	514	500	4.05%
Commercial paper (iv)	285	285	2.54%	285	285	2.71%
Unsecured debt	3	3	7.52%	4	4	7.51%
	2,395	2,277		2,511	2,414	
Infrastructure (v)	917	902	6.05%	219	210	6.57%
Total (e)	\$ 3,312	\$ 3,179	4.85%	\$ 2,730	\$ 2,624	5.01%

- (i) Includes mortgages and other secured debt with various terms to maturity up to 2027 with each debt instrument secured by a specific asset.
- (ii) OMERS Realty Corporation Series A 5.48 per cent Debentures issued November 27, 2002, maturing December 31, 2012.
- (iii) OMERS Realty Corporation Series B 4.69 per cent Debentures issued April 25, 2003, maturing June 2, 2008.
- (iv) OMERS Realty Corporation Commercial Paper with maturities as at December 31 up to March 15, 2005.
- (v) Includes mortgages and other secured debt with various terms to maturity up to 2031 with each debt secured by a specific infrastructure asset.
- (b) As part of the securities lending program, OMERS receives cash collateral that it invests in short-term interest bearing investments and OMERS is obligated to return the cash collateral upon termination of the arrangement.
- (c) Future income taxes relate primarily to the acquisition of Oxford Properties.
- (d) The rights of OMERS Realty Corporation debenture and commercial paper holders are subordinate to the claims of OMERS pension liabilities.
- (e) Scheduled principal repayments for each of the five years subsequent to December 31, 2004 and thereafter are as follows:

(Millions)

2005	\$ 381
2006	58
2007	159
2008	770
2009	165
Thereafter	1,646
	\$ 3,179

NOTE 6 - OTHER ASSETS

(Millions)

	2004	2003
Investment receivables	\$ 205	\$ 190
Goodwill (i)	175	215
Other	57	44
Other investment assets	437	449
Other non-investment assets	142	44
	\$ 579	\$ 493

- (i) Goodwill relates primarily to the acquisition of Oxford Properties. In 2004 goodwill was reduced in conjunction with reduced future income tax liabilities.

NOTE 7 - ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT) - BASIC PLAN

The excess of actuarial value of net assets over actuarial liabilities is calculated net of the liability of the full earnings pension benefits. The full earnings pension benefit was set up within the *OMERS Act* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. These excess benefits are partially funded through the use of a Retirement Compensation Arrangement (note 8).

Actuarial Value of Net Assets

The actuarial value of net assets is established such that investment returns above or below the long-term return assumption (currently set as 7.25 per cent) are deferred and are amortized over 5 years into actuarial assets. For the year, \$1,097 million of investment income was credited to the actuarial valuation adjustment resulting from the investment return being in excess of the long-term rate of return assumption. As a result, at December 31, 2004, OMERS has \$1.168 million (2003 - \$3 888 million) in investment losses in an actuarial valuation adjustment reserve which will be amortized as follows:

(Millions)	Actuarial Valuation Adjustment as at 12/31/2004	Unrecognized Investment Returns to be Recognized in				Actuarial Valuation Adjustment as at 12/31/2003
		2005	2006	2007	2008	
2000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (119)
2001	(983)	(1,054)	-	-	-	(1,832)
2002	(2,207)	(1,184)	(1,269)	-	-	(3,087)
2003	925	331	354	380	-	1,150
2004	1,097	294	316	339	363	-
	\$ (1,168)	\$ (1,613)	\$ (599)	\$ 719	\$ 363	\$ (3,888)

Accrued Pension Benefits

The actuarial present value of accrued benefits is a calculation of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of OMERS. This obligation is measured using the same actuarial assumptions and methods adopted by the Board for setting the long-term funding target. Since there is no intention of terminating the obligations for the foreseeable future, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, the actuarial basis may also change, which could cause a material change in the actuarial present value of accrued benefits.

The projected accrued benefit method (pro-rated on service) is used for the actuarial valuation. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages and gets closer to retirement. However, for a group with a stable demographic profile, annual costs will tend to remain stable when expressed as a percentage of the group's earnings.

The following actuarial assumptions have been used in the actuarial valuation of OMERS:

	2004	2003
Assumed rate of inflation	3.0%	3.0%
Assumed rate of pensionable earnings increases (Based on inflation plus an age-related increase)	4.5%	4.5%
Assumed actuarial rate of return on plan assets and discount rate	7.25%	7.25%

As a pension plan which provides 100 per cent inflation protection, OMERS accrued benefit obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases which impacts future benefits and the assumed real rate of return on plan assets which is also used in the discounting of these future benefits. A 50 basis point change in the real rates for a particular assumption (with no change in other assumptions) would have the following approximate effects on the accrued benefit obligation:

50 basis point decrease/increase	Effect on Accrued Benefit Obligation
Real pensionable earnings assumption	-/+2.4%
Real return on plan assets and discount rate	+/-8.5%

The accrued benefit obligation to December 31, 2004, which follows, takes account of known changes in the Plan membership up to November 30, 2004, actual inflationary increases to pension payments as at December 31, 2004, and the estimated pensionable earnings increase for 2004 which is based on actual 2004 inflation plus assumed wage increases.

(Millions)	2004	2003
Fair value of net assets of the Basic Plan at end of year	\$ 35,643	\$ 32,087
Actuarial value adjustment	1,168	3,888
Actuarial value of net assets at end of year	36,811	35,975
Accrued benefit obligation at beginning of year	35,466	33,034
Interest accrued on benefits	2,615	2,388
Benefits accrued	1,351	1,266
Benefits paid (note 12)	(1,496)	(1,355)
Plan amendments	69	–
Experience and other losses/(gains)	(231)	133
Accrued benefit obligation at end of year	37,774	35,466
(Deficit)/Surplus of actuarial value of net assets over actuarial liabilities	\$ (963)	\$ 509

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented above on the going concern basis. Under the *Pension Benefits Act*, a solvency (hypothetical windup) valuation must be performed on the plan, even though the risk of it being wound up is remote. This special valuation is performed for the Basic Plan only and assumes a liquidation scenario. As permitted by the *Pension Benefits Act*, the solvency valuation uses the fair value of assets and a liability discount rate based on long-term nominal bond yields at the valuation date. Under this method, no allowance is made for the costs associated with future cost of living increases.

The actuarial present value of accrued pension benefits under the solvency valuation, excluding the full earnings pension benefits, was estimated to be \$32,099 million as at December 31, 2004 (2003 – \$28,547 million). As at December 31, 2004, the fair value of net assets, excluding the full earnings assets and allowing for a provision for expenses on windup, was \$35,583 million (2003 – \$32,026 million).

NOTE 8 – ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT) – RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement (RCA) was established by OMERS to provide full earnings pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act* with respect to service after 1991.

The full earnings pension benefits are not fully funded but are operated on a modified pay-as-you-go basis in order to minimize the impact of the 50 per cent refundable tax applicable to RCA plans. Contributions under the full earnings plan (based on the top-tier Basic Plan contribution rates) are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Basic Plan – \$105,335 for 2004 (2003 – \$99,577). Benefits in excess of the maximum allowed by the *Income Tax Act* will be paid from the RCA.

Due to the funding policy adopted, the RCA assets will remain small relative to the liabilities of the full earnings pension benefits. However, based on the contribution rates effective January 1, 2004, and the assumption that contributions to the RCA will continue, it is expected that the annual cash inflow will be more than sufficient to cover the annual benefit payments and that the RCA assets will continue to grow in the foreseeable future. A relatively small increase in the number of terminations and retirements at the higher income levels, however, can increase actual benefit payments from and decrease actual contributions to the RCA. The Board has the latitude of increasing the contributions to the RCA if the current rate is projected to be insufficient to sustain the payments of the full earnings pension benefits.

Determination of the value of these excess benefits is made on the basis of a periodic actuarial valuation. The actuarial assumptions used are consistent with those used for the Basic Plan except that beginning in 2004 the discount rate is 3.63 per cent, which has been adjusted to approximate the effect of the 50 per cent refundable tax under the RCA. Such adjustment is made to reflect what would be the actual obligation of the full earnings pension benefits if they are to be fully funded using an RCA. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

(Millions)	2004	2003
Fair value of net assets at end of year	\$ 12	\$ 6
Accrued benefit obligation at beginning of year	68	63
Increase in benefit obligation due to RCA taxation	68	—
Interest accrued on benefits	5	4
Benefits accrued	7	4
Benefits paid (note 12)	(2)	(1)
Experience and other losses/(gains)	7	(1)
Accrued benefit obligation at end of year	140	69
Deficit of actuarial value of net assets over actuarial liabilities	\$ (127)	\$ (63)

NOTE 9 - NET INVESTMENT INCOME

OMERS investments are managed by the following major asset classes: Public Markets (which includes OMERS investments in interest bearing investments, absolute return investments and public equities); Private Equity; Infrastructure; and Real Estate.

Income from assets backing derivative financial instruments is reported in the particular investment category by major asset class. Realized and unrealized income from derivative financial instruments is \$698 million (2003 - \$1,343 million).

OMERS investment income for each major asset class is as follows:

(Millions)	2004				
	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income/(Loss)	Investment Management Expenses (note 13)	Net Investment Income/(Loss)
Public markets (iii)	\$ 851	\$ 2,152	\$ 3,003	\$ (75)	\$ 2,928
Private equity (iii)	41	110	151	(47)	104
Infrastructure	236	73	309	(17)	292
Real estate (iv)	445	(11)	434	(8)	426
	\$ 1,573	\$ 2,334	\$ 3,907	\$ (147)	\$ 3,760
Income credited to administered pension funds and supplementary retirement benefits					(80)
Net investment income					\$ 3,680

(Millions)	2003				
	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income/(Loss)	Investment Management Expenses (note 13)	Net Investment Income/(Loss)
Public markets (iii)	\$ 818	\$ 3,246	\$ 4,064	\$ (66)	\$ 3,998
Private equity (iii)	75	(245)	(170)	(42)	(212)
Infrastructure	58	(104)	(46)	(23)	(69)
Real estate (iv)	400	(497)	(97)	(27)	(124)
	\$ 1,351	\$ 2,400	\$ 3,751	\$ (158)	\$ 3,593
Income credited to administered pension funds and supplementary retirement benefits					(51)
Net investment income					\$ 3,542

(i) Includes total interest on real estate investment liabilities of \$138 million (2003 - \$170 million) and infrastructure investment liabilities of \$15 million (2003 - \$11 million).

(ii) Includes total net realized gain of \$1,169 million (2003 - \$803 million).

(iii) Total investment income/(loss) for Public markets and Private equity are as follows:

	2004			2003		
	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income/(Loss)	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income/(Loss)
PUBLIC MARKETS						
INTEREST BEARING INVESTMENTS						
Short-term deposits	\$ 112	\$ -	\$ 112	\$ 125	\$ -	\$ 125
Canadian bonds and debentures	248	52	341	296	30	326
Mortgages and private debt	110	5	115	106	14	120
	510	58	568	527	44	571
Real return bonds	32	123	160	30	78	108
	542	181	733	557	122	679
PUBLIC EQUITY						
Canadian equities	116	651	1,007	108	1,364	1,472
Non-Canadian equities	130	1,070	1,260	153	1,760	1,913
	309	1,041	2,270	261	3,124	3,385
	\$ 851	\$ 2,130	\$ 3,003	\$ 818	\$ 3,246	\$ 4,064
PRIVATE EQUITY						
Canadian private equities	30	34	64	75	(139)	(64)
Non-Canadian private equities	11	36	57	-	(106)	(106)
	\$ 41	\$ 110	\$ 151	\$ 75	\$ (245)	\$ (170)

(iv) Total investment income/(loss) for real estate is further detailed below:

(Millions)	2004	2003
REVENUE		
Rental	\$ 1,096	\$ 1,156
Investment	60	40
	1,156	1,196
EXPENSES		
Property operating and other expenses (i)	573	626
Operating income	583	570
Interest expense	(139)	(170)
	445	400
NET GAIN/(LOSS) ON INVESTMENTS AND DERIVATIVES		
Properties	53	(341)
Goodwill (ii)	-	(90)
Debt	(23)	(55)
Other	(31)	(11)
	(11)	(497)
Total investment income/(loss)	\$ 434	\$ (97)

(i) Includes audit costs of \$1.5 million (2003 – \$1.7 million) and legal costs of \$2.5 million (2003 – \$2.1 million).

(ii) In 2003 goodwill losses represent writedowns of \$90 million to reflect permanent impairment in value.

NOTE 10 – INVESTMENT RETURNS ⁽ⁱ⁾

	2004	2003
Canadian interest bearing ⁽ⁱⁱ⁾	7.5%	7.0%
Real return bonds	17.8%	13.4%
Canadian public equities	14.2%	26.8%
Non-Canadian public equities ⁽ⁱⁱⁱ⁾	11.5%	20.0%
Private equity	12.5%	-13.8%
Infrastructure	31.0%	-6.5%
Real estate	11.0%	-3.7%
Total Fund	12.1%	12.7%

(i) Investment returns have been calculated in accordance with the acceptable methods set forth by the CFA Institute (formerly, the Association for Investment Management and Research) and the Pension Investment Association of Canada and are based on total investment income/(loss) as determined in note 9.

(ii) Canadian interest bearing investments include short-term deposits, Canadian bonds and debentures, mortgages and private debt.

(iii) Non-Canadian public equities include the results of the currency overlay program.

NOTE 11 – CONTRIBUTIONS

(Millions)	2004	2003
Basic ⁽ⁱ⁾	\$ 385	\$ 404
Transfers from other pension plans	19	19
Other contributions ⁽ⁱⁱ⁾	23	23
	\$ 427	\$ 446

(i) In 2004 the base contribution rate is 6.0 per cent of salary up to \$40,500 and 8.8 per cent of salary for earnings above that level. For NRA 60 members the contribution rate is 7.3 per cent of salary up to \$40,500 and 9.8 per cent of salary for earnings above that level. For the year 2003, contributions were made at approximately one-third of the 2004 contribution rates.

(ii) Other contributions include amounts for leaves of absence, conversion of normal retirement age and contract adjustments.

NOTE 12 – BENEFITS

(Millions)	2004	2003
Members' pensions	\$ 1,246	\$ 1,246
Commutated value payments and members' contributions plus interest refunded	117	81
Transfers to other pension plans	29	29
	\$ 1,492	\$ 1,356

In 2004 total benefit payments for the Basic Plan were \$1,496 million (2003 – \$1,355 million) and for the RCA \$2 million (2003 – \$1 million).

NOTE 13 - PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

(a) Pension Administrative Expenses

(Millions)	2004	2003
Personnel services	\$ 22	\$ 19
System development and other purchased services	12	16
Premises and equipment	6	6
Professional services (i)	2	2
Travel & communication	1	1
	\$ 43	\$ 44

(b) Investment Management Expenses

(Millions)	2004					2003				
	Public Markets	Private Equity	Infra-structure	Real Estate	Total	Public Markets	Private Equity	Infra-structure	Real Estate	Total
Personnel services	\$ 14	\$ 10	\$ 6	\$ 1	\$ 31	\$ 18	\$ 2	\$ -	\$ 2	\$ 22
System development and other purchased services	12	-	1	-	13	11	-	-	1	12
Premises and equipment	8	1	1	-	10	4	-	-	-	4
Professional services (i)	3	1	1	-	5	1	-	-	-	1
Travel & communication	1	1	1	-	3	1	-	-	-	1
Investment management expenses	36	34	11	7	88	31	40	23	24	118
	\$ 72	\$ 47	\$ 17	\$ 8	\$ 144	\$ 66	\$ 42	\$ 23	\$ 27	\$ 158

- (i) Total professional services expenses include actuarial costs of \$1.0 million (2003 - \$0.5 million), audit costs of \$0.7 million (2003 - \$0.3 million) and legal costs of \$2.8 million (2003 - \$0.9 million).

NOTE 14 – EXECUTIVE COMPENSATION

The compensation amounts for 2004 and 2003 are included under personnel services in note 13. The table below represents disclosure of base earnings, annual incentive plan, long-term incentive plan and other compensation earned in 2002, 2003 and 2004 by the President and Chief Executive Officer (CEO), individuals holding the office of the Senior Vice President and Chief Financial Officer (CFO) and the other individuals reporting directly to the CEO in 2004.

Name and Principal Position	Year	Base Earnings	Annual Incentive Plan (i)	Long-Term Incentive Plan (i)	Other (ii)	Taxable Benefits (iii)
Paul G. Haggis	2004	\$ 363,462	\$ 206,446	\$ –	\$ –	\$ 17,108
President and CEO	2003	100,962	–	–	49,971	532
Paul G. Renaud (iv)	2004	\$ 55,385	\$ 50,000	\$ –	\$ –	\$ 2,027
Senior Vice President and CFO Finance and Administration						
Wayne Gladstone (v)	2004	\$ 90,381	\$ –	\$ 174,042	\$ 489,350	\$ 4,379
Senior Vice President and CFO	2003	230,080	64,397	–	21,907	13,440
Finance and Administration	2002	217,846	69,828	–	10,577	13,511
Michael Beswick (vi)	2004	\$ 240,387	\$ 68,897	\$ 220,978	\$ 181,446	\$ 11,478
Senior Vice President	2003	226,042	65,287	–	6,562	15,488
Pensions	2002	211,846	72,028	–	10,577	16,768
Paul Pugh (vii)	2004	\$ 242,308	\$ 256,800	\$ –	\$ –	\$ 1,605
Senior Vice President Investments						
Debbie Oakley	2004	\$ 202,144	\$ 57,936	\$ 74,329	\$ 17,596	\$ 1,053
Senior Vice President	2003	190,080	53,944	–	10,000	1,056
Corporate Affairs	2002	189,385	59,644	–	9,600	837
Selma Lussenburg (viii)	2004	\$ 163,942	\$ 137,500	\$ –	\$ 5,600	\$ 741
Senior Vice President General Counsel and Corporate Secretary						
Floretta Paladino	2004	\$ 153,282	\$ 55,918	\$ 34,975	\$ 10,000	\$ 814
Vice President Human Resources						
R. Michael Latimer (ix)	2004	\$ 510,000	\$ 480,000	\$ –	\$ 25,577	\$ 17,158
President and CEO OPGI Management GP Inc.						
Michael Nobrega (ix)	2004	\$ 346,154	\$ 600,000	\$ –	\$ 35,839	\$ 37,179
President and CEO Borealis Capital Corporation (Infrastructure)						
Ian Collier (ix)	2004	\$ 346,154	\$ 400,000	\$ –	\$ 35,577	\$ 30,244
President and CEO Borealis Capital Corporation (Private Equity)						

(i) The Annual and Long-Term Incentive Plans are based on achieving corporate and individual objectives, including investment performance targets and pension service standards. The annual incentive plan amount relates to the year it was earned. The long-term plan is awarded based on meeting investment and pension objectives over a four-year period with the initial performance period running from 2001 to 2004.

(ii) Includes vacation cash-in, hiring and retiring allowances, car and other allowances.

(iii) Includes insurance, car and fitness benefits.

(iv) Joined OMERS on November 8, 2004.

(v) Retired from OMERS on May 10, 2004.

(vi) Retired from OMERS on December 31, 2004.

(vii) Joined OMERS on April 26, 2004.

(viii) Joined OMERS on May 31, 2004.

(ix) Employment commenced on February 21, 2004.

NOTE 15 – GUARANTEES, COMMITMENTS AND CONTINGENCIES

As part of normal business operations, OMERS enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments may include but are not limited to investments in mortgages, infrastructure, real estate and private equity limited partnership agreements. As at December 31, 2004, these future commitments totaled \$2.5 billion (2003 – \$2.8 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was \$524 million at December 31, 2004.

NOTE 16 – RELATED PARTY TRANSACTIONS

Prior to February 2004 OMERS was party to an asset management services agreement with an investee (the "Asset Manager") in the asset management business, in which OMERS owned a minority interest. Effective February 2004, OMERS purchased the shares of the asset manager that it did not already own for cash consideration of \$49.9 million.

Prior to the purchase of shares, payments to the Asset Manager during 2004 were \$7 million (2003 – \$42 million); in December 2003 \$4 million was due to the Asset Manager and was included in other investment liabilities.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

10 YEAR REVIEW OF FINANCIAL DATA

(\$ Millions)	2004	2003	2002	2001	2000	1999	1998	1997	1996	1995
NET ASSETS ⁽ⁱ⁾										
Public markets ⁽ⁱⁱ⁾	30,283	30,168	23,823	27,755	30,941	30,303	28,026	26,173	22,744	18,533
Private equity	1,460	914	1,021	1,031	1,128	849	508	474	422	353
Infrastructure	2,314	1,426	349	279	—	—	—	—	—	—
Real estate	6,898	6,920	7,747	8,181	4,707	4,126	3,995	2,729	2,450	2,391
	40,955	39,428	32,940	37,246	36,776	35,278	32,529	29,376	25,616	21,277
Other investment assets	665	793	1,017	998	698	493	297	244	270	381
Investment liabilities ⁽ⁱⁱ⁾	(5,438)	(7,512)	(3,824)	(4,323)	(921)	(280)	(916)	(102)	(156)	(96)
Net investment assets	36,182	32,709	30,133	33,921	36,553	35,491	31,910	29,518	25,730	21,562
Non investment assets/(liabilities)										
Supplementary agreements	(86)	(143)	(172)	(165)	(148)	(131)	(116)	(110)	(121)	(120)
Administered pension plans	(553)	(496)	(440)	(487)	(528)	(502)	(437)	(395)	(341)	(345)
Other assets/(liabilities)	112	23	(16)	(26)	(2)	72	23	95	110	116
Net assets	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378	21,213
INVESTMENT INCOME ⁽ⁱⁱⁱ⁾										
Total investment income	3,907	3,751	(2,358)	(1,362)	2,114	4,711	2,949	3,778	4,163	3,039
Investment management expenses	(147)	(158)	(103)	(69)	(62)	(52)	(50)	(40)	(39)	(35)
Basic plan	3,760	3,593	(2,461)	(1,431)	2,052	4,659	2,899	3,738	4,124	3,004
Administered pension plans and supplementary benefit agreements	(66)	(51)	28	4	(47)	(85)	(52)	(62)	(64)	(392)
Net investment income	3,694	3,542	(2,433)	(1,427)	2,005	4,574	2,847	3,676	4,060	2,612
CONTRIBUTIONS RECEIVED FOR										
Basic	1,363	404	—	—	—	—	364	869	874	869
Other	46	42	47	36	30	27	8	21	8	7
	1,409	446	47	36	30	27	372	890	882	876
PAYMENTS TO MEMBERS										
Pensions paid	1,353	1,246	1,153	1,034	916	817	761	699	661	570
Contributions and interest refunded	111	81	102	125	121	178	149	104	89	67
Transfers to other plans	34	29	47	34	8	10	10	9	6	6
	1,498	1,356	1,302	1,193	1,045	1,005	920	812	756	643
EXPENDITURES										
Pension administrative expenses	43	44	50	48	45	46	27	24	21	20
TOTAL FUND ANNUAL RATE OF RETURN										
Time weighted return										
on market value	12.1%	12.7%	-7.1%	-3.4%	6.2%	15.2%	10.1%	14.8%	19.3%	14.2%
Benchmark	9.9%	15.5%	-7.4%	-4.2%	4.1%	14.7%	10.7%	15.1%	18.0%	16.1%
Funding requirement	6.4%	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%	5.0%	6.4%	6.0%

(i) Market value as at December 31.

(ii) For 2004 and 2003 public market investments include short-term investments from cash collateral received from securities lending activities and investment liabilities include the obligation to return the collateral upon termination of the securities lending arrangement. There is no impact on net assets.

(iii) Includes realized and unrealized gains, interest expense.

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Plan for the Future

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OMERS

Annual Report 2005



Lead

Be the leader in the pension industry.

Perform

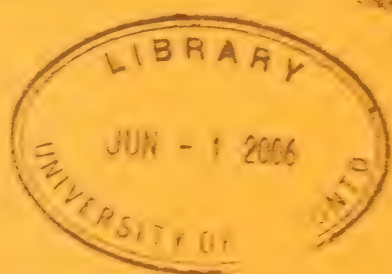
Provide first-in-class
investment management.

Serve

Deliver superior pension services to
our members and employers.

Grow

Attract investment partners and other
pension plans through our leadership.



What's new in this year's report?

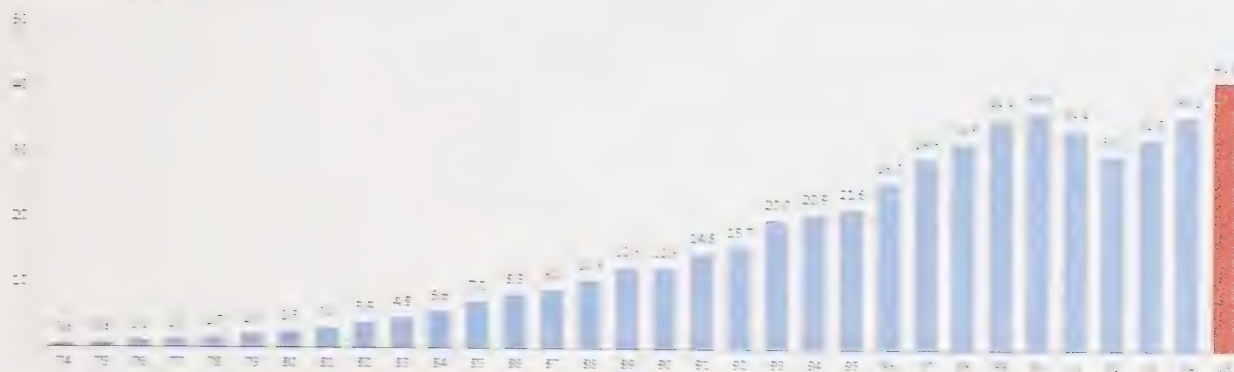
Sarita de Souza, Retired, Committee of Adjustments
Steve Duncan, Driver/Loader Solid Waste
Dr. Sylvia Lee, Dentist
Brad deWald, Zoo Keeper with Bateleur eagle
Lisa Farun, Caseworker, Social Services
Frank Pamagnano, Fire Fighter
Pat Hoffman, Senior Administrative Support, School Board
Constable Isabelle Cotton, Police Officer

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and Analysis
- 33 Corporate Governance
- 37 Consolidated Financial
Statements and Notes

FINANCIAL HIGHLIGHTS

NET INVESTMENT ASSET GROWTH FROM 1974

Market value, \$ Billions



ASSET MIX

as at December 31, 2005

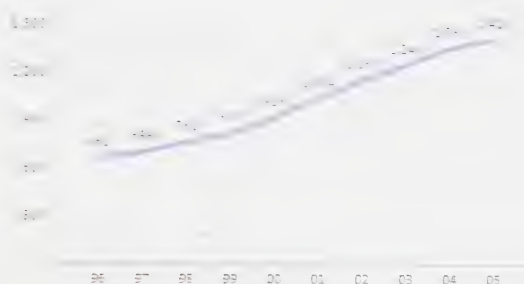
NET INVESTMENT ASSET



Public Pension	40%
Private Pension	30%
Real Estate	15%
Other	15%

GROWTH IN PENSION PAYROLL

\$ Millions



RATE OF RETURN VS. FUNDING OBJECTIVE

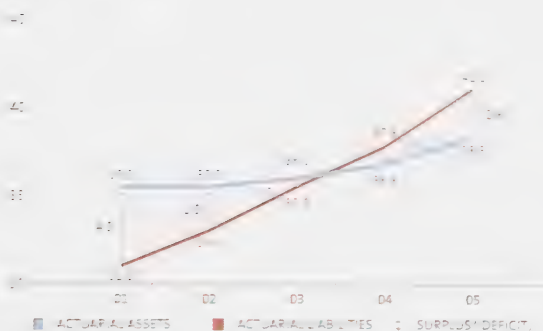
%



ACTUARIAL ASSETS AND LIABILITIES – BASIC PLAN

as at December 31

Market value, \$ Billions





Generating
results on
investments

OMERS is a major investor in the energy sector, with significant holdings in the generation segment. Energy generation is an attractive opportunity for large institutional investors like OMERS and is consistent with our strategy, providing long-term, stable, inflation-protected returns to help us meet future pension obligations.



OUR OPERATING PRINCIPLES

1

Ensure the quality of our balance sheet.

- Our assets are prudently invested and delivering a return that meets our needs within an appropriate risk profile.
- Our assets match our liabilities.
- Our assets and our liabilities are fairly valued.

2

Ensure that the right organizational structure – with clear lines of accountability – is in place to meet our objectives.

- Our organization is aligned for accountability and clarity of purpose.
- Our organizational structure allows active, hands-on management of our assets.
- Our organizational design provides value for the cost.
- Everyone at OMERS knows what is expected of them and of others.

3

Ensure that our members' needs are understood and met.

- We understand the needs of all our members.
- We deliver what they want, where and when they want it, and at a price that represents value for them.

4

Ensure we have the right people in the right jobs.

- Our business is organized around our primary asset: individuals making decisions.
- Our people are motivated, engaged and have the knowledge they need to achieve our aims.
- Our compensation programs reward performance.

5

Ensure we have access to the right management information.

- We have the information we need to manage our business.
- Our management information is timely, accurate and actionable.
- This information is universally understood throughout our organization.

Member Services

OMERS is widely recognized in the pension industry for the high standards of its member services. The reason for this is simple – business as usual for us means constantly striving to improve the quality and kind of service we provide and meeting service benchmarks that stretch our capabilities.

This requires innovative programs and processes and, more than anything else, highly skilled and dedicated people who appreciate the importance of understanding the needs of our customers, and fulfilling them efficiently and promptly.

Our mandate in the Pension Division, and OMERS overall, is to provide our members and employers first-in-class pension services. In recent years, this has become an increasingly challenging objective, with a growing membership that has become more actively aware of pension issues.

Our performance in 2005 confirms that the platform we have built over the past several years is capable of handling growing and changing needs.

In 2005, we met or exceeded every one of our demanding service monitor standards:

- Initial claims turnaround time – less than 2 business days on average vs. a target of 3 business days.

- Incoming calls resolved at first point of contact – 91.5 per cent on average vs. a target of 90 per cent.
- Answer incoming calls to client services within 100 seconds – 80.3 per cent on average vs. a target of 80 per cent.

Some further statistics help tell the story:

- We now serve a total active and retired membership of almost 364,000, 2.6 per cent more than at the end of 2004, and nearly 900 employers.
- In 2005, we processed over 24,000 retirement, termination, disability, pre-retirement death benefits and retirement estimates.
- Communication is a critical element of our service. In 2005, our web site had almost half a million hits.
- OMERS presentation staff reached out to nearly 10,000 members, retirees and employers at face-to-face meetings across Ontario.

SATISFACTION SURVEYS

Percentage of respondents who rated OMERS
4 out of 5 or 5 out of 5 for service excellence



NUMBER OF NEW PENSIONS IN PAST FIVE YEARS

Unusually high numbers from 2001 to 2004 reflect temporary early retirement windows that were in effect during those years





- 85 per cent of employers (covering 99 per cent of active members) are now registered for our e-access program, which enables employers to look up member information, check the status of an event or process a form on-line.
- e-access continued to extend its reach in 2005. Over the course of the year, 79 per cent of key employer requests were received through e-access, compared with about 70 per cent at the end of 2004 and about 55 per cent at the end of 2003. Employers benefited from a new secure on-line application – e-119 – to report their annual data.

We also conduct an annual survey to assess how we are doing at meeting the needs of members, retirees and employers. The 2005 survey results show a satisfaction rate of between 83 per cent and 92 per cent and indicate a continuing recognition of our high standards.

What's next for Member Services? Continuing to enhance our overall services, improving e-access tools, plus implementing the provisions of the new OMERS Act, including Supplemental Plans, and supporting the Sponsors Corporation as required. (More about the new OMERS Act on pages 8, 20.)



In order to sustain growth in a \$41 billion organization like OMERS, our team of dedicated professionals must focus on implementing our investment strategy and managing day-to-day operations. However, every now and again it is important to be reminded just how personal our business is to our members and retirees.

In November 2002, I attended my father-in-law's 80th birthday celebration held near Peterborough, Ontario. The room was filled with extended family and friends, a good number of whom were understandably of retirement age. I happened to stop by a table of six women and discovered that four of the six were OMERS pensioners, two of whom were receiving survivor benefits. They, in turn, had been informed I was a relatively new member of the OMERS Board. Unanimously and without any prompting on my part, they praised the Plan. As one said, *"It means so much to all of us. Without my monthly cheque, I don't know how I'd get by."*

That is when I fully realized the true purpose of the OMERS Plan and the difference it makes in the lives of our members. Our job – our entire focus – must continue to be meeting the pension promise. Every action we take must strengthen our capability to pay pensions, now and in the future. In practical terms, it means making the right investments; building our

resources to manage and monitor our assets; meeting the requirements of our members in a timely and accurate manner; and demonstrating leadership at all levels of the organization, beginning with the Board itself.

In 2005, OMERS enhanced its abilities on all these key fronts and it is a pleasure to comment on our performance over the past year.

OUR INVESTMENT STRATEGY

In last year's annual report, I discussed the progress OMERS had made in implementing the new investment strategy that we announced in early 2004.

The importance that OMERS attaches to achieving success with our investment strategy is understandable since, over the long term, 70 per cent of the funding for pensions comes from investment returns, while 30 per cent is derived from member and employer contributions.



A key element of our strategy is a shift in our asset mix as we work towards reducing our public equity and interest-bearing holdings from 80 per cent to approximately 60 per cent of the Plan's assets and increasing private equity, infrastructure and real estate to about 40 per cent. We believe this will result in stronger returns and more stable cash flow, regardless of returns from the public markets.

The strength of equity markets in the past two years has contributed to a slower pace in this asset shift, although we expect to achieve our asset allocation targets by the end of the decade.

Our President and CEO, Paul Haggis, will comment further on our investment returns. Suffice it to say we earned a total fund rate of return of 16.0 per cent in 2005, the third consecutive year that we have exceeded our long-term funding requirement.

FUNDED POSITION

Despite our excellent investment performance in 2005, our funding deficit in the Basic Plan increased to \$2.8 billion from just under \$1 billion a year ago. This can be attributed to several factors.

First, a portion of the investment income earned in 2005 will be deferred to future years, as part of the actuarial smoothing process, and similarly, a portion of the losses from 2001 and 2002 have been recognized in 2005.

Second, our actuarial liability in the Basic Plan (the present value of future pensions earned to date) is higher than we had anticipated due in part to member salary increases, inflation protection adjustments for pensions and member demographics that differed from actuarial assumptions. (A more detailed explanation may be found in the Management's Discussion and Analysis section of this annual report.)

CONTRIBUTION INCREASE

Our funded status will be assisted by an average 0.6 per cent increase in contribution rates for both members and employers, which began in January 2006. While our recent strong investment performance meant that the increase was substantially lower than originally anticipated, a contribution rate increase was still required to ensure that the Plan remains fully funded over the long term.

OMERS is not unique in facing a myriad of challenges in matching its pension liabilities to its assets. Some pension plans have reduced benefits; others have introduced or are warning of significant contribution rate increases. Our goal, as discussed earlier, is to drive investment returns, always with an eye towards appropriate levels of risk, in order to ensure stable contributions.

PENSION SERVICES

As I said from the outset, OMERS focus is on paying pensions and meeting the needs of our membership. The OMERS Board closely monitors the pension services we provide to ensure all plan participants get the information and support they need.

The OMERS Board views our Pension Division as one of the best kept secrets in the pension environment in Canada. Despite a varied and complex membership, with almost 364,000 members and 900 employers, OMERS achieved 100 per cent of its rigorous service level standards in 2005.

THE NEW OMERS ACT

In June 2005, a major change in OMERS governance structure was initiated when the Ontario government introduced Bill 206, *An Act to revise the Ontario Municipal Employees Retirement System Act*. Early in 2006, the Bill received Royal Assent and it is expected to take effect this year. The Board monitored the status of Bill 206 and participated in government committee hearings, with most of our recommendations being accepted and incorporated into the new OMERS Act.

Many of our members and retirees have inquired about the impact of the new OMERS Act on OMERS operations and on their current and future pensions, so it is important to highlight some key facts.

The most important thing to note is that the fund remains strong and pensions remain secure. The organization that runs OMERS day-to-day continues as the OMERS Administration Corporation. The new OMERS Act does not change our responsibility for managing investments and administering the Plan.

Like all pension plans, OMERS remains subject to federal and provincial pension regulations.

SPONSORS CORPORATION

The new OMERS Act gives responsibility for the decisions that affect pension plan design, contributions and benefits to the people and organizations that fund OMERS – namely its members and employers. A Sponsors Corporation, with a

representative Board of Directors, will replace the Ontario Government which, for 43 years, has been OMERS plan sponsor. This governance model is not unique – most other major public sector pension plans in Canada use a similar independent sponsor governance system. What is unique is the degree of complexity of the OMERS plan, with its large and diverse membership. The OMERS Board has committed to working with the Sponsors Corporation to ensure a smooth transition.

SUPPLEMENTAL PLANS

The new OMERS Act introduces the concept of Supplemental Plans. These are separately funded, stand-alone pension plans that would offer flexibility in benefits currently not available in the OMERS Primary Pension Plan.

Within two years of the Act taking effect, Supplemental Plans must be established for police officers, fire fighters and paramedics. This is not to say new benefits will be in place at this point. Rather, the systems to allow for the benefits to be negotiated have to be established. The Sponsors Corporation Board may also vote to create Supplemental Plans for other plan members in the future.

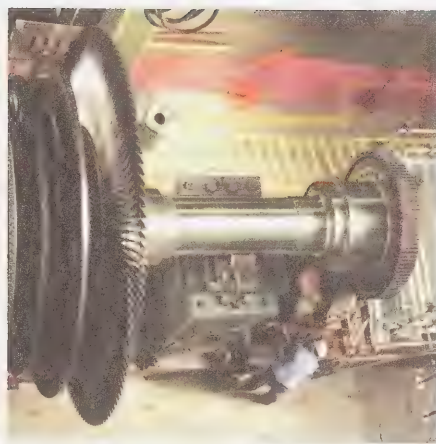
Supplemental Plan benefits will be bargained locally between employers and eligible employees. The new OMERS Act stipulates that only one new supplemental benefit can be provided initially, and additional benefits can only be added once every three years.

These Supplemental Plans do not impact the security of OMERS Primary Plan. Supplemental Plans will be entirely funded by their participants and cross funding is not permitted under the law.

GOVERNANCE

The new OMERS Act will bring change with respect to how plan design and contribution rates will be determined.

What will not change is the emphasis the OMERS Board has put on corporate governance and its commitment to be a leader in adopting best practices in board governance.



It is with a sense of accomplishment and pride in my Board colleagues when I say that OMERS was the first Board to have all its members graduate as Chartered Directors from The Directors College, jointly administered by The Conference Board of Canada, the DeGroote School of Business and McMaster University. It is mandatory that all new directors commit to achieving this designation when appointed to the OMERS Board.

Ongoing Board education remains a priority, with quarterly education sessions conducted in conjunction with Board meetings, an education budget to address independent learning requirements for each Board member, and mandatory training on pension and audit matters.

The Board conducts ongoing reviews of its effectiveness, including the work of its five standing Committees. In 2005, we affirmed our ongoing commitment to disclosure with the regular publication of summaries of Board proceedings regarding the OMERS Plan on the OMERS website. This is in addition to hosting regional meetings in different parts of Ontario to review the Plan's performance.

It is my firm belief that the new OMERS Act will give the OMERS Board an even greater opportunity to concentrate on its fiduciary responsibilities to the betterment of all plan members.

OUR COMMITMENT

Our commitment is simple – to do our very best every day. It is a philosophy that I have seen exhibited by my Board colleagues and our entire staff. It has resulted in our becoming a leader among pension plans and an internationally recognized name as an institutional investor. It is a philosophy that I know will continue to guide us as we face the challenges before us and seize the opportunities they bring.

The end of 2005 marked the conclusion of my two-year tenure as OMERS Chair. I wish to thank all OMERS Directors, executive and staff – and the staff of our investment entities – for their contributions and effort. I also want to note the contributions of Bill Rayburn, my predecessor as Chair, Dick McIntosh and Brian O'Keefe, the three members of the Board who stepped down during 2005.

In closing, I would say it has been a privilege and an honour to serve as Chair for OMERS.

Frederick Biro
Chair

Letter from the President

Paul G. Haggis

President and Chief Executive Officer



Everything we do at OMERS is in pursuit of two main goals – achieving the asset growth we need to meet future pension liabilities in a challenging and variable long-term investment environment, and meeting the pension service needs of our members, employers and retirees.

We feel the best way to achieve these goals is to continually strive to be the pension industry leader both in terms of the superior returns we earn on fund investments and as a first-in-class provider of pension services.

More than two years ago, in recognition of our primary goals, and in pursuit of our desire to be the best, we launched a new strategy and initiated a number of organizational changes, restructuring around five key lines of business and adding experienced executives in several key positions. During 2004 and again last year, we began to see tangible and substantial rewards from the new strategy at work.

Our asset mix policy, the foundation of our investment activities, produced very strong results for the third consecutive year in 2005.

OUTSTANDING INVESTMENT, PENSION SERVICE PERFORMANCE

Our total fund rate of return in 2005 was 16.0 per cent, exceeding our overall benchmark of 13.2 per cent. Our strategy, executed by experienced and capable professionals, created value for OMERS portfolio of more than \$1 billion over and above our benchmark.

Our 2005 real rate of return was 13.8 per cent, after deducting inflation of 2.2 per cent. This is substantially in excess of our long-term real return funding requirement of 4.25 per cent.

Each of the investment business units exceeded their benchmarks. Public market investments returned 12.6 per cent against a benchmark of 12.5 per cent. OMERS Capital Partners, our private equity investment arm, returned 23.2 per cent against a benchmark of 7.6 per cent. Borealis Infrastructure, which manages our infrastructure investments, also posted a return of 23.2 per cent in 2005, compared with their



benchmark of 11.8 per cent. Oxford Properties Group, responsible for our real estate assets, achieved a return of 26.0 per cent against a benchmark of 8.4 per cent.

OMERS pension services continue to lead the public sector pension industry. In 2005, we met or exceeded every one of the many detailed measures we monitor to ensure that we are meeting the needs and living up to the expectations of our members, employers and retirees. Some of these results are profiled on page 4.

For the third straight year our success at controlling costs resulted in lower pension administrative expenses. In 2005, they were down a substantial 16 per cent from 2004.

OUR STRATEGY ENSURES A SECURE FUTURE

These exceptional results provide validation for our reorganization and strategic direction. Our strategy is proving its worth and OMERS pension promise is secure and strong.

In 2005, the Board and management worked together to develop a new vision for OMERS. In 2006, we will ensure that our new organization and strategy are aligned with the new vision, corporate objective and core values that define what we want to be, what we are committed to providing to our members, and how we treat our people and members in fulfilling our mandate.

Public Market Investments

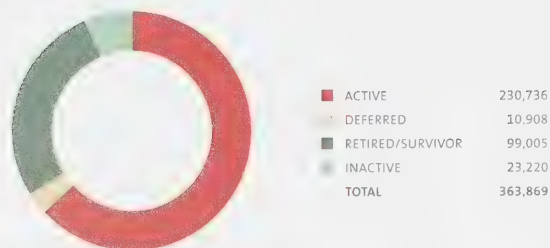
OMERS overall public market return in 2005 was 12.6 per cent compared with a 12.5 per cent benchmark. OMERS investment expertise capitalized on strong Canadian public markets in 2005 to earn a 23.0 per cent return for our Core Canadian Fund, which comprises about 30 per cent of our public equity portfolios.

Canadian returns were dominated by the energy sector which produced a 63.0 per cent return in 2005.

Non-Canadian public equities were strong: we earned a return of 11.8 per cent, beating the benchmark of 11.2 per cent. For the second straight year, real return bonds, which represent approximately 4 per cent of our portfolio, exceeded a 15.0 per cent return. Interest bearing investments, which comprise the balance of our public market portfolio, generated a return of 7.0 per cent, exceeding its benchmark of 6.3 per cent.



MEMBER PROFILE



We want to be nothing less than the leader in the pension industry – we want to be the best. We will earn that status if we rank at the top in investment performance, and if we set the standard in our industry for service to our members and employers. And, as leaders in these areas we will be the ideal choice for other capital market participants to partner with; we will be the asset management and service leader that other organizations will want to handle their investment operations; and we will be the company where quality people want to work.

Growth is an objective not for its own sake, but because it will expand the range and size of the investment opportunities we can pursue, decrease our costs on a per-unit basis, and allow us to add new services to the benefit of all members, employers and retirees.

STRONG PRIVATE MARKET INVESTMENT POTENTIAL

2005 represented the second full year that OMERS has operated with our revised asset mix strategy that increases emphasis on private market classes. During 2005 we grew the proportion of our assets in private equity and infrastructure investments and positioned our real estate assets for growth. We will continue to make this adjustment carefully and deliberately over the next few years.

The timing of our shift to private market classes couldn't have been better for several reasons. First, while our overall performance over the past few years has exceeded expectations, it is not realistic to expect it to be sustainable over the longer term. While the North American economy is strong, and has been for a couple of years, economists predict the United States economy will start to slow down in 2007 and that world economies will remain mixed.

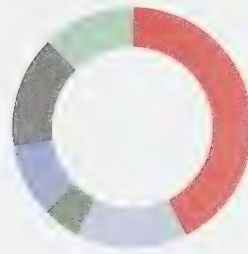


Pension Division

The Pension Division is the primary link between OMERS and its members, retirees and employers, and two-way communication is the key to our ability to consistently meet their needs.

OMERS conducts quarterly surveys to confirm that our current services are up to the standards expected by active and retired members, and employers. We also obtain feedback through our regular contact with members, retirees and employers. In 2005, our call centre handled 94,258 telephone calls and 10,705 e-mails, letters, and faxes. We also made 1,085 presentations at member information and pre-retirement sessions, and employer seminars and visits. These face-to-face meetings have proven to be an effective means of building a strong partnership with employers and enhancing the pension knowledge of members and employers.

FUTURE ASSET MIX POLICY



PUBLIC MARKETS		
PUBLIC EQUITY		42.5%
INTEREST BEARING		15.0%
REAL RETURN BONDS		5.0%
PRIVATE MARKETS		
PRIVATE EQUITY		10.0%
INFRASTRUCTURE		15.0%
REAL ESTATE		12.5%

Investments in real estate, private equity and infrastructure, when thoroughly researched and carefully chosen, tend to produce higher, more stable returns than investments in public debt and equity markets. So our new asset mix will help mitigate the dampening effect of public market downturns that we expect will occur over time.

The second factor in our favour is the fact that private market classes represent a growing investment opportunity globally. Real estate, for example, is well-positioned for global expansion. Industry experts have observed that the global real estate market, which has recently experienced dramatic change in terms of evolving demand and innovative financial structures, continues to trend higher. They expect direct real estate investment – one of Oxford Properties' key strategic initiatives – to outperform most other assets.

Private equity investment, which helps drive innovation, is a very competitive field. Promising opportunities are there and our challenge is to be among the first investors to identify emerging trends, to partner with experienced and proven players in the market, to structure our investments in the most beneficial way possible and to help our portfolio companies achieve their growth potential.

Finally, opportunities to invest in infrastructure projects that offer stability and solid returns over the long term continue to grow. Governments around the world have recognized that co-investment partnerships that include private investment represent one of the best ways to meet their infrastructure goals and needs.

OMERS Capital Partners

In 2005, OMERS Capital Partners (OCP) made a significant strategic shift, moving from a public market focus to a private market focus, and in strengthening its focus on the real estate sector, which we believe offers the best long-term growth opportunities in the future.

OCP clearly achieved one of its strategic objectives – increased its net asset value with a return of 21.2 per cent in 2005, compared to a benchmark of 15.5 per cent. OCP's net asset value and total investment commitments in 2005, following the sale of OCP's public equity portfolio, were about \$2.4 billion. OCP also diversified its geographic distribution, with investments in 10 countries, and at year end, assets were split across major regions: 40 per cent in Canada, 30 per cent in the U.S.

OCP now actively manages a private equity portfolio of 17 fund relationships and 50 direct investments and represents significant equity company exposures in 14 financial services companies.



Our exceptional results provide validation for our reorganization and strategic direction. Our strategy is proving its worth and the future of OMERS pension promise is secure and strong.

Borealis Infrastructure is pursuing a strategy that will see OMERS partnering with leading institutional investors to develop exactly the kinds of innovative financing needed by the global infrastructure sector.

OUTSTANDING PEOPLE AND EXCELLENT PROCESSES

With a strategy firmly in place that provides sufficient assets to participate in these opportunities in a meaningful way, the requisite for success in the alternative investment sector, as well as in public market investments and pension services, is excellent people and processes. We have encapsulated our focus on excellence in our five Operating Principles: quality of the balance sheet, the right organizational structure with clear lines of accountability, understanding and meeting our customers' needs, having the right people in the right jobs, and having access to timely and accurate management information.

These principles are the foundation of our ability to deliver on our mandate of pension security and service excellence. They are not a one-time achievement however, they are an ongoing requirement. We work continuously to ensure that we maintain every one of them. The results of 2005 demonstrate the effectiveness of these principles and our strategy.

MEASURING OUR SUCCESS

The confidence we have in our abilities and strategy is reflected by our willingness to be measured by what we achieve against targets and to be compensated accordingly. This approach is even more important when working with an active investment strategy.



Borealis Infrastructure

Borealis Infrastructure nearly doubled its return target in 2005, achieving 23.2 per cent compared with a benchmark of 11.8 per cent. Borealis continued to enhance its reputation as a pre-eminent global investment manager for institutional investments in core infrastructure assets. This will strengthen Borealis' "first mover" advantage, which provides access to the most promising global deals in the rapidly growing infrastructure sector.

In 2005, Borealis increased its commitment to invest in Bruce Power, Ontario's largest independent electricity generator, with a \$2.1 billion commitment to restart two reactors and refurbish two others. Other significant accomplishments included closing the more than \$600 million investment in Scotia Gas Networks and completing an investment that gives OMERS 30 per cent ownership of Ciel Satellite.



This means we have to be accountable for the decisions we make, and often we must be actively involved in the management of the assets in which we invest to ensure better returns.

ELIMINATING OMERS FUNDING DEFICIT

At the end of 2004, OMERS Basic Plan had an actuarial funding deficit of \$963 million. In last year's annual report, we estimated that the deficit would grow to about \$2.5 billion by the end of 2005 because of the need to recognize losses incurred during the 2000 to 2002 stock market decline. Virtually all public sector pension plans are facing similar challenges.

In fact, OMERS actuarial deficit increased to \$2.8 billion as a result of a couple of items. Firstly, our actuarial liability was impacted by several factors including larger than expected salary increases for plan members and a higher than expected

inflationary increase for OMERS retirees. So while our assets grew substantially, these factors caused higher than expected growth in the Plan's liabilities. And secondly, the same actuarial smoothing process that requires that we smooth our losses over five years also applies to our gains. So a portion of the income related to the strong returns of the past few years has been deferred and will be recognized in the Plan's valuation in the future, which we expect will contribute to a decrease in the deficit.

We are confident that our investment strategy and the new contribution rates implemented in January 2006, coupled with the dedicated and innovative efforts of OMERS professionals, will reduce the actuarial deficit and return the plan to fully funded status. In the meantime, we take comfort from the fact that on a market value basis, for the first time since 2001, our assets approximate our liabilities.

Oxford Properties Group

Oxford posted very strong returns in 2005 (26.0 per cent compared to a benchmark of 8.4 per cent) and took major steps towards repositioning its portfolio as a global platform for growth.

Oxford sold a 50 per cent interest in 11 major downtown office buildings to the Canada Pension Plan Investment Board while continuing to act as property manager for these buildings.

To support a key strategic objective of reducing third party management, Oxford brought the property management for three major retail malls and all industrial and multi-family residential properties in house.

Capital investment projects included launching the development of a new 19-storey office tower in Ottawa, and \$144 million for leasing and redevelopment initiatives to improve the value of existing assets.





OMERS IS STRONG, PENSIONS ARE SECURE

It is important for all our stakeholders to appreciate that the security of the OMERS Plan and our ability to pay pensions has never been in question during our entire history. The inevitable peaks and valleys of the various markets in which we invest, as well as changing demographics and other factors, mean that OMERS will sometimes record surpluses and sometimes deficits. OMERS remains strong and our current and future pensions remain secure.

In 2005, OMERS continued to reap the benefits from the organizational and strategic changes initiated in 2003. Our strategic priorities over the next few years are to do more of what has brought OMERS success. We will continue to strive for top investment returns, we will continue to implement our asset allocation with the shift to private equity, real estate

and infrastructure, we will continue to respond to the needs of our members and employers, and we will continue to develop and improve our organizational capacity and structure to reach these goals.

OMERS is fortunate to have a Board of Directors that both challenges and supports us. On behalf of the senior management team, I thank them for their guidance and counsel and I thank all our employees for their commitment to delivering results for OMERS members, employers and retirees.

A handwritten signature in blue ink that reads "Paul G. Haggis".

Paul G. Haggis
President and Chief Executive Officer

OMERS SENIOR EXECUTIVE MANAGEMENT TEAM



(left to right) Selma M. Lussenburg, Senior Vice President, General Counsel and Corporate Secretary, Paul G. Wiraaul, Senior Vice President and CFO, Paul G. Haggis, President and CEO, Debbie Oakley, Senior Vice President, Corporate Affairs, Jennifer Brown, Senior Vice President, Pensions, Michael Latimer, President and CEO, Oxford Properties Group, Paul Pugh, Senior Vice President, Public Investments, Michael Nobrega, President and CEO, Borealis Infrastructure, Flo Paladino, Vice President, Human Resources

Board Governance

OMERS ability to fulfill the pension promise for our members and retirees is rooted in our history of effective and transparent pension plan governance. Over the past 43 years, we have continuously sought to achieve the highest standards.

OMERS FOCUS ON EXCELLENCE IN GOVERNANCE

OMERS has a number of policies and practices in place that support our commitment to best governance practices, including the measures listed below.

- A Board education program that includes mandatory corporate director certification from The Directors College, operated in conjunction with The Conference Board of Canada, the DeGroote School of Business and McMaster University, as well as mandatory orientation in board operations and governance.
- Strict auditor independence guidelines that separate the audit and non-audit functions. OMERS external auditor is prohibited from providing other consulting services.
- A Code of Ethics and Professional Conduct, covering areas such as conflict of interest, fiduciary duty, and privacy, that applies to OMERS Board members and staff who are required to affirm their compliance each year.
- An ethics hotline supported by a whistle blowing policy.
- A conflict of interest policy regarding investments. Board members and appropriate staff must sign an annual certificate of compliance and portfolio statement.
- A requirement that members of the Audit Committee meet the standard of financial literacy.
- Transparency and accountability to plan participants through regular meetings with plan participants and stakeholders as well as print and electronic communication. We also regularly publish summaries of Board proceedings regarding the OMERS Plan on the OMERS website.

BOARD MANDATE

OMERS obligation to manage the Plan in the best interests of all Plan members, is set out in the *OMERS Act and Regulation*. The Board has a number of key responsibilities including:

- Administering the pension plan.
- Ensuring appropriate allocation of financial resources.
- Determining investment asset mix and establishing investment policies.
- Monitoring organizational effectiveness and establishing appropriate executive compensation policies.
- Monitoring the Plan's funding status, appointing the Plan actuary and approving actuarial valuations.

BOARD MEMBERSHIP

Structure (2005)

There are 13 positions on the OMERS Board – six member representatives, including one retired member, six employer representatives and one provincial government representative. Board members are appointed by the Ontario government, normally for a maximum of two three-year terms. Under the new OMERS Act, which is expected to be proclaimed in 2006, the current OMERS Board will continue as the OMERS Administration Corporation (see page 20 “New Governance Model”).

Board Independence

The Board appoints the CEO, who is not a member of the Board, and reviews his/her position annually. Day-to-day management of OMERS is delegated to the CEO.

OMERS BOARD OF DIRECTORS



Frederick Blin, Chair



David Carrington



Richard Faber



David Hoggan, Vice-Chair



Melissa Fenn



Rick Miller



Ann Mulvale



Michael Power



Peter Kestiff



John Killo



John Weatherup



Sam Wyland

ADVISORS TO THE BOARD

Actuary
Watson Wyatt Worldwide

Auditors
PriceWaterhouseCoopers Inc.

Legal Advisor
Osler, Hoskin & Harcourt Inc.

Master Custodian
State Street Canada Inc.

Medical Advisor
Dr. D. Lewis

MEMBER REPRESENTATIVES

David Carrington
Canadian Union of Public Employees

Richard Faber
Retired Member

David Kingston
York Regional Police

Rick Miller
Ontario Professional Fire Fighters Association

Peter Kestiff
International Brotherhood of Electrical Workers

John Weatherup
Canadian Union of Public Employees

EMPLOYER REPRESENTATIVES

Frederick Blin
First Police Services Board

Marianne Love
Association of Metropolitan Councils of Ontario

Ann Mulvale
Town of Durham

Michael Power
Municipality of Grimsby

John Salin
York Catholic District School Board

Edw. Weldon
City of Toronto

GOVERNMENT OF ONTARIO REPRESENTATIVE

VACANT

The Board would like to acknowledge the following Directors who served on the Board in 2005:

Don McIntosh
Retired Member

Wes O'Keefe
Ontario Federation of Labour Employees

Ken Bicknell
Union of Municipal Employees

The Board also appoints the external auditors, master custodian and actuary, and has access to independent legal advice. The Board has regular *in-camera* meetings without management present.

Board Attendance

Board attendance in 2005 was over 96 per cent.

Board Committees

The Board has five standing committees with the following mandates:

Investment Committee (Committee of the Whole)

- Approves asset mix policy, reviews and approves investment policy and goals, reviews and approves major investment decisions.

Pension Committee

- Reviews and makes recommendations to the Board on plan service quality and standards, pension communications, plan administration policy and Board-mandated plan administrative decisions. May consider and review, as appropriate, OMERS plan design and actuarial matters.

Audit Committee

- Monitors the integrity of OMERS financial reporting processes and system of internal control regarding financial reporting and accounting compliance, assesses the independence and performance of OMERS external auditors and internal audit department.

Human Resources and Compensation Committee

- Reviews human resources strategy, executive compensation and performance, succession planning and non-executive compensation and incentive plans.

Governance Committee

- Reviews the mandate of the Board and its committees, evaluates Board orientation and education programs, reviews the composition of committees and qualifications for Board members.

NEW GOVERNANCE MODEL

With the passage of the new OMERS Act by the Ontario legislature on February 23, 2006 and its expected proclamation later in the year, the existing Ontario Municipal Employees

Retirement Board – the corporate entity that has a fiduciary obligation to administer the OMERS Plan and invest its funds – will continue as the OMERS Administration Corporation. A new body, the Sponsors Corporation, replaces the Ontario government as the Plan's sponsor with authority for plan design, benefit changes and contribution rates.

The commitment to excellence that OMERS has maintained for more than four decades, including our focus on improving governance practices, will not change as a result of the new Act.

Under the new OMERS Act, the Administration Corporation consists of 14 voting members appointed first by the Ontario government (for terms of up to three years) and then by the sponsor organizations (for three-year terms) if vacancies arise during the three-year period following Proclamation. After this three-year transitional period, the composition of the Administration Corporation and the method of choosing its members is determined by a Sponsors Corporation by-law, which must be passed by a two-thirds majority.

The transitional or initial Administration Corporation Board comprises seven employer and seven plan member representatives as follows:

Employer representatives

- Association of Municipalities of Ontario (2 members)
- City of Toronto (1 member)
- School Boards (rotates between public and Catholic Boards) (1 member)
- Ontario Association of Police Services Boards (1 member)
- Other employers (rotates among representatives of other employers) (2 members)

Plan Member representatives

- Canadian Union of Public Employees (Ontario) (2 members)
- Police Association of Ontario (1 member)
- Association of Municipal Managers, Clerks and Treasurers of Ontario (1 member)
- Ontario Professional Fire Fighters Association (1 member)
- Other contributing members (rotates among other unions and associations) (1 member)
- Members receiving or entitled to a pension (rotates among organizations representing these members) (1 member)

Management's Discussion and Analysis

This section is the responsibility of management and contains management's analysis of the Plan's financial condition, operational results and the environment in which it operates as of February 24, 2006. This section should be read in conjunction with the consolidated financial statements. The consolidated financial statements document our significant accounting policies and risk management approach and are integral to our analysis. The Audit Committee and Board of Directors have reviewed and approved the contents of this section.

In addition to historical information, this section contains forward-looking statements with respect to management's strategy, objectives, outlook and expectations. Forward-looking statements are preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". By their very nature, those statements are subject to risks and uncertainties, which may cause actual results to differ from the expectations expressed in the forward-looking statements. Forward-looking statements made in this section represent management's views at the date of this report and OMERS does not undertake to update or revise any forward-looking statements as a result of new information, future events, or otherwise.

OUR OBJECTIVES

Our overriding goal is to fulfill the pension promise to our current and future retirees. To achieve this goal two overall objectives govern our actions:

- (i) generating sufficient returns through the investment of the Fund's assets; and
- (ii) providing cost-effective pension administration services that meet our members' needs, the most important of which is to pay monthly pensions.

OUR PLAN

OMERS is a multi-employer pension plan whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by investment earnings of the Fund. The Plan has approximately 364,000 active, former and retired members.

OMERS pension is integrated with the Canada Pension Plan as the OMERS benefit formula includes a bridge benefit paid to age 65. Including this bridge benefit, the benefits paid under the Basic Plan are calculated by multiplying two per cent of the member's average annual earnings for the highest paid five consecutive years, times years of credited service, to a maximum of 35 years. At age 65 the bridge benefit of 0.675 per cent is subtracted for integration with the Canada Pension Plan. Inflation protection, survivor benefits and early retirement options are also excellent features of the Plan.

In addition to the Basic Plan for all members, OMERS maintains a Full Earnings Plan through the use of a Retirement Compensation Arrangement (RCA), which provides supplementary pension benefits for members whose benefits under the Basic Plan are limited by ceilings imposed by the *Income Tax Act*. An RCA provides a means to enable retirement savings and contributions on members' total earnings.

OUR INVESTMENT STRATEGY

OMERS investment strategy focuses on investments in asset classes that collectively are designed to meet our pension obligation within the Plan's risk tolerance. OMERS invests in interest bearing investments, public equities, private equities, infrastructure and real estate investments, often in combination with derivative financial instruments. Our strategy over the long term is to reduce our holdings

of public equities and interest bearing investments from the current 80 per cent to approximately 60 per cent of the Plan's net investment assets with a corresponding increase in our investments in private equities, infrastructure and real estate from 20 per cent to approximately 40 per cent of net investment assets. We believe that this will bring strong, predictable returns and generate consistent cash flow with reduced risk to meet the pension promise.

Over the long term, investment returns on the Plan's assets are expected to fund 70 cents of every dollar paid in benefits with the balance coming from employee/employer contributions.

FUND PERFORMANCE

OMERS earned a 16.0 per cent total fund rate of return in 2005, compared with a 12.1 per cent total fund rate of return in 2004. After allowing for inflation of 2.2 per cent, the real rate of return was 13.8 per cent, which significantly exceeded our long-term real return funding requirement of 4.25 per cent. Net investment income totaled \$5,515 million in 2005, compared with \$3,694 million a year earlier.

Net assets grew by \$5,410 million, or 15.2 per cent, to \$41,065 million in 2005 compared with an increase of \$3,562 million or 11.1 per cent last year. The factors driving the increase were the strong net investment income resulting from the strength of the Canadian public equity markets and exceptional returns from real estate, infrastructure and private equity investments.

Investment management expenses were \$160 million in 2005, compared to \$147 million in 2004. The increase of 8.8 per cent is due to increased salary and benefit costs in managing our public markets, private equity and infrastructure investments. Pension administrative expenses were \$36 million for the year, compared with \$43 million last year, a decrease of 16.0 per cent. Pension administrative expenses have declined for the third straight year due to the completion of the Membership Services System and cost control efforts throughout the organization.

Performance Overview

We measure the performance of each of our investment asset classes against an objective benchmark that acts as the proxy for each market. We develop a benchmark for the total fund by aggregating and weighting the individual benchmarks proportionately with our asset mix policy. Our benchmarks are reviewed and approved by the Board. Our goal is to earn returns that exceed these benchmarks. For the year ended December 31, 2005, the total fund return of 16.0 per cent exceeded the total fund benchmark of 13.2 per cent by 280 basis points (a basis point is one hundredth of a per cent). When we exceed the benchmark, our investment managers are adding value to the portfolio above the targeted return for the asset class or the return generated by the markets through passive investments.

Public markets generated net investment income of \$4,036 million compared with \$2,928 million a year earlier. Public market investment returns were 12.6 per cent compared with a benchmark of 12.5 per cent and a return of 10.3 per cent in 2004. The increase is attributable to significantly higher returns in Canadian public equity markets in 2005 when OMERS Canadian public equities returned 23.6 per cent compared with 14.2 per cent in 2004.

Interest bearing investments, excluding real return bonds, produced income before investment management expenses of \$594 million, an increase of \$26 million or 4.6 per cent compared with 2004. The return for interest bearing investments, excluding real return bonds was 7.0 per cent compared with 6.3 per cent for the benchmark and 7.5 per cent a year earlier. The gain of 70 basis points over the benchmark is primarily due to the successful anticipation of changes in interest rates and a greater percentage of higher yielding instruments such as mortgages and private debt. Real return bonds produced \$201 million in income and had solid returns of 15.2 per cent, consistent with the benchmark of 15.2 per cent; however, below the 17.6 per cent return in 2004 due to a smaller decline in real interest rates in 2005 compared to 2004.

Public equity investments generated income before investment management expenses of \$3,322 million, \$1,900 million from the Canadian market and \$1,422 million from global markets. Canadian public equities valued at \$8,466 million plus Canadian equity derivative exposure earned a return of 23.6 per cent for the year, compared with a benchmark return of 24.2 per cent and a 14.2 per cent return in 2004. Non-Canadian public equities valued at \$9,530 million and non-Canadian equity derivative exposure earned a return of 11.8 per cent in 2005, compared with 11.2 per cent for the benchmark and an 11.5 per cent return in 2004. Although mitigated by our currency-hedging program, the non-Canadian public equity return was reduced after conversion into Canadian dollars as the Canadian dollar strengthened against major currencies during 2005.

Private equity investments generated net investment income of \$385 million, compared with \$104 million last year. The 2005 return on total private equity investment income was 23.2 per cent compared with 7.6 per cent for the benchmark and a 12.5 per cent return in 2004. The increased return and income is due to strong market value appreciation on several investments as the portfolio of investments continues to improve its financial performance as the businesses mature.

Infrastructure investments generated net investment income of \$395 million, compared with \$292 million a year earlier. The 2005 return was 23.2 per cent, compared with 11.8 per cent for the benchmark and a 31.0 per cent return in 2004. The increase in net investment income and a return in excess of the benchmark is due to higher than expected earnings in the energy sector.

Real estate generated net investment income of \$791 million, including operating income of \$440 million after interest expense. This compared with net investment income of \$436 million a year earlier on operating income of \$445 million after interest expense. The real estate portfolio is partially funded by \$2,168 million in mortgages and other debt, which resulted in an interest expense of \$124 million in 2005. Based on total investment income of \$793 million before investment management expenses, the return for the real estate portfolio was 26.0 per cent in 2005, compared with a 2005 benchmark return of 8.4 per cent and an 11.0 per cent return in 2004. The increase in income and returns compared with the prior year is a result of strong rental operating income plus favourable market value appreciation in the year. Part of the market value appreciation was realized in 2005 from the sale of a number of real estate properties, with the majority from the sale of a 50 per cent interest in 11 properties to Canada Pension Plan Investment Board in June 2005 for an amount in excess of \$1,000 million.

Returns and Benchmarks

	2005		2004	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Interest bearing	7.0%	6.3%	7.5%	6.8%
Real return bonds	15.2%	15.2%	17.6%	17.5%
Canadian public equities	23.6%	24.2%	14.2%	14.4%
Non-Canadian public equities (i)	11.8%	11.2%	11.5%	10.7%
Private equity (i)	23.2%	7.6%	12.5%	1.8%
Infrastructure (i)	23.2%	11.8%	31.0%	1.8%
Real estate	26.0%	8.4%	11.0%	7.2%
Total Fund	16.0%	13.2%	12.1%	9.9%

(i) Returns for non-Canadian public equities, private equity and infrastructure include the results of OMERS currency hedging program related to the respective asset classes.

Long-Term Returns

OMERS annualized four-year return (a standard measure in the pension fund industry) was 8.0 per cent, well above the 6.8 per cent four-year funding requirement. Over a longer horizon, our 10-year return to the end of 2005 was 9.3 per cent, compared with 6.3 per cent for the funding requirement. Since first implementing an active investment policy in 1974, the Fund has a 10.4 per cent compounded annual return, compared with a funding requirement of 8.6 per cent.

OUR PLAN'S FUNDING STATUS

Each year an independent actuary determines the Plan's funding status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. On December 31, 2005, the estimated actuarial accrued pension obligation for all members including survivors (excluding the net liabilities of the Full Earnings Plan) was \$41,123 million, compared with \$37,774 million a year earlier. OMERS Basic Plan had an actuarial value of net assets of \$38,339 million in 2005, compared with \$36,811 million in the prior year, resulting in a funding deficit of \$2,784 million as at December 31, 2005, compared with \$963 million as at December 31, 2004.

The Full Earnings Plan had an estimated funding deficit of \$138 million as at December 31, 2005, compared with a deficit of \$137 million last year.

CHANGES IN (DEFICIT)/SURPLUS

(Millions)	2005	2004
Basic Plan		
(Deficit)/surplus, beginning of year	\$ (963)	\$ 509
Increase in net assets available for benefits	5,403	3,556
Change in actuarial valuation adjustment	(3,875)	(2,720)
Increase in actuarial value of net assets available for benefits	1,528	836
Less: increase in accrued pension benefits	(3,349)	(2,308)
Deficit, end of year	\$ (2,784)	\$ (963)
Full Earnings Plan		
Deficit, beginning of year	\$ (137)	\$ (63)
Increase in net assets	7	6
Less: increase in accrued pension benefits	(8)	(80)
Deficit, end of year	\$ (138)	\$ (137)

The factors that have contributed to the funding deficit in the Basic Plan include:

- The implementation of \$2,200 million of pension benefit improvements between 1998 and 2000, including guaranteed inflation protection of up to 6.0 per cent per year, improved spousal benefits and a change to the CPP offset formula.
- A federal government mandated full contribution holiday for employers and plan members that began in August 1998 and lasted until December 2002, which resulted in more than \$5,300 million in contributions that would normally have been made during this period not flowing into the Plan and not being available for investment.
- A significant decline in equity markets that resulted in OMERS recording negative returns in 2001 and 2002.
- Actuarial smoothing of higher investment returns in the last three years as compared to the long-term return assumption.

Current Year Change in Deficit

Although investment returns have exceeded the funding requirement in both 2004 and 2005, the actuarial deficit in the Basic Plan, as predicted, also increased. The increase in the actuarial deficit is due to a \$3,349 million increase in the actuarial liability and to the recognition of losses that had been deferred and amortized in the actuarial valuation adjustment reserve as a result of returns below the long-term actuarial rate of return assumptions in 2001 and 2002, partially offset by the recognition of gains above the long-term actuarial rate of return assumption in 2003, 2004 and 2005.

The estimated present value of accrued liabilities for the Basic Plan at year-end 2005 was \$41,123 million, an 8.9 per cent increase from \$37,774 million in 2004 due to interest on accrued benefits, additional pension benefits earned by plan members and experience losses, which included larger than expected salary increases for plan members and a higher than expected inflationary increase for OMERS retirees.

In arriving at the actuarial deficit, changes in the fair value of net assets above or below the long-term actuarial rate of return assumption are deferred and amortized over five years to "smooth out" the peaks and valleys in an individual year's investment returns caused by market volatility. Smoothing is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term market fluctuations on pension plan funding. The annual actuarial valuation adjustment is based on the difference between actual returns and the long-term return expectation (inflation plus 4.25 per cent, equivalent to 7.25 per cent in 2005) for the current year plus the four preceding years. This is in keeping with the long-term nature of the Plan and assists OMERS in its objective of maintaining stable contribution rates rather than frequently adjusting them to keep pace with the year-over-year performance of the Fund.

Investment returns were above the long-term actuarial rate of return assumption from 2003 to 2005 as public equity markets, particularly in Canada, performed well. OMERS also achieved strong results across its private investments over this period. As a result, as at December 31, 2005, the actuarial valuation adjustment account now represents unrecognized net gains of \$2,707 compared with unrecognized net losses of \$1,168 million in 2004. The last of the actuarial losses related to the 2000 to 2002 market downturn will be recognized in 2006 through the actuarial smoothing process. On a market value basis, excluding smoothing adjustments, the net assets of the Basic Plan approximate the accrued benefit obligation for the first time since 2001.

Funding Outlook

Upon filing an actuarial valuation report, which is required at least once every three years under Ontario provincial regulations, a Plan must take measures to eliminate a funding deficit over a period not to exceed 15 years, typically through increased contributions or a change in the benefits offered. Based on the December 31, 2004 actuarial valuation, which showed a funding deficit of \$963 million, the Board implemented an increase to contribution rates which averages 0.6 per cent of a member's salary for both employers and members beginning on January 1, 2006. This is equivalent to a 9.0 per cent increase in the amount of contributions.

The 2005 contribution rate for OMERS members with a normal retirement age of 65 was 6.0 per cent of salary up to \$41,100 and 8.8 per cent for salary above that level. For police officers and fire fighters, who have a normal retirement age of 60 and represent about 12 per cent of OMERS members, the 2005 rate for salary up to \$41,100 was 7.3 per cent and 9.8 per cent for earnings above that level.

As a result of the contribution increase, the 2006 contribution rate for OMERS members with a normal retirement age of 65 will be 6.5 per cent of salary up to \$42,100 and 9.6 per cent for salary above that level. For police officers and fire fighters, the 2006 contribution rate for salary up to \$42,100 will be 7.9 per cent and 10.7 per cent for earnings above that level. Based on increased contribution rates and other factors, we anticipate contributions to the Plan will increase by approximately \$200 million in 2006.

Actuarial Assumptions

In calculating the funding deficit, the actuary makes various long-term economic and demographic assumptions. Assumptions about investment returns affect the projected value of assets. Assumptions about inflation and salary increases affect the projected value of future benefits. The actuary's assumptions included in the valuation as at December 31, 2005, which were approved by the Board, are summarized as follows:

- First, the Plan's annual nominal rate of return and discount rate for future years is assumed to be 7.00 per cent, down from 7.25 per cent in the 2004 valuation. This includes an assumption on annual inflation of 2.75 per cent, which is down from 3.00 per cent in 2004 and a real investment return assumption based on OMERS asset mix of 4.25 per cent, unchanged from the 2004 valuation.
- Second, it is assumed that members' earnings will increase annually by approximately 4.25 per cent, down from 4.50 per cent in the 2004 valuation. This rate is based on inflation plus an age-related factor and where applicable, a service-related factor.

Full Earnings Plan

As a consequence of the pay-as-you-go funding policy adopted for the Full Earnings Plan, its assets will remain small relative to its liability. However, our actuary estimates that if contributions to the RCA continue, the annual cash inflow will be sufficient to cover benefit payments and the RCA's assets will continue to grow for the foreseeable future. The actuarial liability for the Full Earnings Plan increased from \$149 million in 2004 to \$157 million at the end of 2005.

Pension Benefits and Contributions

OMERS ended 2005 with approximately 99,000 retired members and survivors receiving pension benefits. Benefits paid in 2005 were \$1,603 million, an increase of \$105 million over 2004. The increase reflected new retirements, the adjustment of benefits for inflation and an increase in termination refunds. Contributions for 2005 were \$1,534 million compared with \$1,409 million in 2004. The increase reflects an increase in the number of active members and an increase in member salaries.

OUR ASSET MIX POLICY

In order to meet pension obligations to our members, the Plan must earn a 4.25 per cent real return (that is, after inflation) on its investments over the long term. In developing an asset mix policy, we identify the asset classes that collectively are most likely to meet our pension obligation. We weigh the risk/reward profile of each asset class to ensure that we are reasonably compensated for risk and we invest in different asset classes and geographic markets to disperse portfolio risk and reduce the volatility of total returns.

Our investment strategy over the long term is to reduce the percentage of the Fund exposed to public equities and interest bearing investments while increasing investments in private markets, particularly infrastructure and private equity. We believe that over the long term, an asset mix with greater exposure to private market investments is better positioned to generate sufficient returns to meet the Plan's funding requirements. This asset mix policy is supported by sophisticated investment strategies, such as absolute return strategies, foreign currency management and derivatives.

ASSET MIX

	2005	2004	Long-Term Target
Public Markets			
Interest bearing	18.9%	19.4%	15.0%
Real return bonds	4.0%	3.5%	5.0%
Public equity	57.3%	58.7%	42.5%
	80.2%	81.6%	62.5%
Private Markets			
Private equity	6.0%	4.1%	10.0%
Infrastructure	5.7%	3.5%	15.0%
Real estate	8.1%	10.8%	12.5%
	19.8%	18.4%	37.5%

In 2005, we continued to make progress towards our long-term asset mix targets as we increased the market value of our net investment assets with exposure to private equity and infrastructure by \$2,118 million, a 77 per cent increase over 2004. However, due to strong public equity markets and the sale of certain real estate investments, the increase in our exposure to private markets is expected to take longer than originally anticipated.

In determining OMERS asset mix exposure, the market value of cash and other investment-related assets and liabilities included in net investment assets per the consolidated financial statements are allocated to the individual asset classes. In addition, to reflect asset class responsibility, derivative exposure and other items are allocated to arrive at OMERS ultimate exposure by asset class. Net investment assets, based on the holdings per the consolidated financial statements and after all allocations, are as follows:

(Millions)	December 31, 2005			December 31, 2004		
	Holdings	Asset Mix		Holdings	Asset Mix	
		Exposure	%		Exposure	%
Public Markets						
Interest bearing	\$ 19,682	\$ 7,836	18.9%	\$ 13,809	\$ 6,990	19.4%
Real return bonds	1,660	1,664	4.0%	1,266	1,266	3.5%
Total interest bearing	21,342	9,500	22.9%	15,075	8,256	22.9%
Public equity	17,996	23,865	57.3%	15,208	21,255	58.7%
	39,338	33,365	80.2%	30,283	29,511	81.6%
Private Markets						
Private equity	2,389	2,497	6.0%	1,460	1,484	4.1%
Infrastructure	3,679	2,388	5.7%	2,314	1,283	3.5%
Real estate	6,180	3,371	8.1%	6,898	3,904	10.8%
	12,248	8,256	19.8%	10,672	6,671	18.4%
Investment related assets	807	—	—	494	—	—
Investment related liabilities	(10,772)	—	—	(5,267)	—	—
Net Investment Assets	\$ 41,621	\$ 41,621	100.0%	\$ 36,182	\$ 36,182	100.0%

Managing the Asset Mix

The asset mix is reviewed daily by our investment specialists to ensure compliance with the approved policy. Recommended changes to react to market conditions are reviewed by the senior investment management team. Our policy of regular rebalancing is part of our risk management process and also ensures sufficient liquidity to meet pension and operating obligations.

PUBLIC MARKETS

Public market investments include OMERS investments in bonds, other interest bearing assets and publicly traded equities. These investments are often made in combination with a variety of derivative financial instruments.

Interest Bearing Investments

Interest bearing investments are a natural fit for a pension plan seeking reliable low-risk returns that offset the more volatile nature of publicly traded equities. At December 31, 2005, total interest bearing investments held were \$21,342 million. Of this total, \$7,836 million was invested with exposure to bonds and debentures, mortgages, private debt and money market and other short-term investments, \$1,664 million was invested with exposure to real return bonds, \$5,481 million was backing assets for derivatives programs that provide exposure to public equity markets and \$6,361 million related to securities lending cash collateral and amounts allocated to other asset categories.

As at December 31, 2005, interest bearing investments consisted of federal bonds, provincial bonds, mortgages with a mix of commercial, industrial and multi-residential loans, real return bonds issued by governments, corporate bonds of institutional investment grade, private placements and short-term cash equivalent securities. Approximately 17 per cent of mortgages are guaranteed by government agencies such as Canada Mortgage and Housing Corporation.

In the past 10 years, interest bearing investments, excluding real return bonds, have earned an annualized return of 7.9 per cent, including capital gains, due in part to the declining interest rate environment.

Public Equities

OMERS \$8,466 million invested in Canadian public equities and \$9,530 million in non-Canadian public equities included both actively managed and non-derivative quantitatively managed portfolios. Exposure to public equities included \$5,597 million of exposure through the market value of derivatives and assets backing derivatives and the allocation of \$272 million of cash and short-term investments and investment related assets and liabilities.

Actively Managed Equity Portfolios

The actively managed Canadian equity portfolio totaled \$7,107 million in 2005 compared with \$5,769 million in 2004 and contained approximately 220 publicly traded companies.

Our investment professionals are value investors who buy the shares of well-managed, profitable companies that can produce reliable long-term returns. They select, for example, companies that should gain value from synergistic acquisitions or that have a competitive advantage in their industry. Within approved asset allocation guidelines, staff can take advantage of short-term trading opportunities to generate added value.

Up to 10 per cent of our core actively managed portfolio can include U.S. equities. This enables us to add companies in economic sectors that are underrepresented in Canada, such as pharmaceuticals, or regional U.S. banks that have different valuation multiples and performance profiles than Canadian banks.

Outside Canada, we had \$7,970 million invested in the equities of companies in the United States, United Kingdom, Europe, the Far East and emerging markets as follows:

(Millions)	December 31, 2005		December 31, 2004	
	Holdings	(%)	Holdings	(%)
United States	\$ 3,032	38%	\$ 2,622	38%
Europe	1,869	24%	1,616	23%
Far East	1,391	17%	1,199	17%
United Kingdom	791	10%	783	11%
Emerging Markets	887	11%	738	11%
	\$ 7,970	100%	\$ 6,958	100%

Participation in various global economies increases our portfolio diversification and lowers overall risk.

Our non-Canadian equity portfolios are actively managed by 12 external investment firms that specialize in regional and national markets. Such a global mandate enables managers to make larger allocations by country, sector or capitalization where they believe higher returns are possible. During the year, the net increase in funding to external investment firms was \$400 million.

Quantitative Managed Equity Portfolios

Our investment professionals earn enhanced and less volatile returns from market indices by employing actively managed low-risk strategies that include index-based swaps, arbitrage and the anticipation of changes in index composition. Using technical analysis and computer modeling, these strategies, referred to as quantitative management, are applied to:

Canadian Equity

- \$1,359 million in managed portfolios that target the S&P/TSX Composite, the S&P/TSX 60 and other indices;
- \$1,217 million in derivative portfolios that provide exposure to the S&P/TSX Composite, the S&P/TSX 60 index and other indices.

Non-Canadian Equity

- \$1,560 million in managed portfolios that target the Russell 1000 index and the S&P 500 index;
- \$2,264 million in derivative portfolios that provide exposure to the S&P 500 index;
- Various derivative portfolios totaling \$2,116 million that provide diversified exposure to major equity indices throughout the world.

PRIVATE MARKETS

Private markets include private equity, infrastructure and real estate investments. Consistent with our asset mix policy, we have increased our exposure to private markets to about 19.8 per cent of total investments in 2005 and we are progressing toward a target exposure of approximately 37.5 per cent over the long term. These investments appeal to OMERS because history shows that they generate higher long-term returns than public equity portfolios over time.

Private Equity

Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly.

Our private equity investment strategy takes two forms. One involves investing as a limited partner in funds managed by external specialists around the world who have demonstrated the ability to consistently outperform their peers over time in selecting investee companies. Generally the relationships that we establish also permit a co-investment strategy, whereby we can make an additional direct investment in an investee company alongside the investment being made by the partnership. These investments as a limited partner are generally in excess of \$50 million and as a co-investor generally approximate \$25 million. Fund investments are an efficient means for OMERS to diversify its investment portfolio geographically (particularly outside Canada), by industry segment and by type of investment (buyouts, venture capital and mezzanine).

Our second private equity strategy involves direct investments either on our own or with other like-minded institutional investors, with OMERS staff identifying the opportunities, conducting the due diligence, structuring the transaction and generally leading or co-leading the investor consortium. These investments in later stage companies are generally less than \$200 million and exclude early stage venture capital commitments. Our focus for direct investments is mainly investments in Canada and the United States.

At December 31, 2005, \$2,389 million was invested in private equity, with 50 per cent managed by 47 external fund managers in Canada, the United States, Western Europe and Asia. The remaining 50 per cent was directly invested in companies. Private equity exposure represented 6.0 per cent of net investment assets at year-end.

During 2005 private equity investments increased from \$1,460 million to \$2,389 million due to increased investments in both funds and direct investments. For funds, additional investments for both existing relationships and new commitments during the year totaled \$550 million. In addition, on December 30, 2005, we sold and assigned our general partnership interests in and management of, the Borealis Private Equity Limited Partnership and the Borealis (QLP) Private Equity Limited Partnership to avoid any perception of a conflict of interest between the interests of making private equity investments directly versus through the general partner. We have maintained our limited partner interest in this investment. In 2005 we made several new direct investments, the most significant of which was CEDA Holdings, a leading industrial, mechanical and electrical services company, which is well established in the Alberta oil sands.

Our goal over the long term is to build a portfolio of private equity investments diversified by geographic market, economic sector and types of companies that will represent approximately 10 per cent of our asset mix.

Infrastructure

Infrastructure investing involves direct investments in inflation sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both. Individual investments generally require capital commitments for a minimum of 15 to 20 years and typically generate consistent annual cash flows; a perfect fit in meeting our long-term pension obligations.

Through Borealis Infrastructure, OMERS has become an investor of choice in the infrastructure sector. Our assets include majority or minority positions alongside other pension, corporate and government investors. At December 31, 2005, we had invested \$3,679 million in infrastructure, an increase of \$1,365 million over the prior year. We increased our asset mix exposure to infrastructure in 2005 from 3.5 per cent to 5.7 per cent and we are making progress toward our long-term goal of 15 per cent.

Our largest investment, representing approximately 35 per cent of our infrastructure portfolio, is our limited partnership interest in the Bruce Power nuclear facilities. With six operational nuclear reactors, Bruce Power currently supplies approximately 20 per cent of Ontario's electricity. In October 2005, an agreement was reached with the Ontario Power Authority to restart two currently idle reactors and refurbish two of the six operating reactors at Bruce Power. OMERS has committed to provide funding of approximately \$2,125 million from 2005 to 2011 to the restart and refurbishment program. As a result of this program, Bruce Power is expected to supply approximately 25 per cent of Ontario's electricity by 2011.

In June 2005, we also completed the purchase of a 25 per cent interest in the Scotland and the South of England gas distribution networks from National Grid Transco plc as part of a consortium with Ontario Teachers' Pension Plan and Scottish and Southern Electric. OMERS invested approximately \$628 million (£270 million) in this asset. The combined Scotland and South of England network comprises approximately 73,000 kilometres of gas lines serving approximately 5.6 million customers.

Other significant investments include:

- a 30 per cent interest in CIEL Satellite, which was acquired this year and will offer wholesale satellite capacity to the North American market;
- a 33 per cent interest in a pipeline system that exports crude oil from Alberta to the United States and serves refineries in six western and midwestern states;
- a 34 per cent interest in Confederation Bridge linking Prince Edward Island and New Brunswick under a concession agreement with the federal government until 2032;

- a 50 per cent ownership interest in the Detroit River Tunnel Partnership. The Detroit River Tunnel is used by over 425,000 railcars annually making it one of the largest trade corridors in the world;
- a 57 per cent interest in Enwave Energy Corporation, which owns the largest deep lake water cooling service in the world and provides environmentally friendly heat and air conditioning to Toronto's downtown office core.

Real Estate

Oxford Properties Group is responsible for executing our strategy of developing a global enterprise in the real estate sector. The strategy focuses on the ownership and management of large-scale assets, diversified by property type and geographic market. Real estate investments of this nature generate reliable cash flows, facilitating our ability to meet current benefit obligations. Furthermore, well managed real estate generally appreciates in value over time in step with inflation, which offsets the inflation exposure of our pension liabilities. Today Oxford is one of North America's largest commercial real estate investment companies, overseeing and managing \$12 billion of real estate for itself and on behalf of its co-owners.

In June 2005 Oxford took a major step in its strategy to reposition its real estate portfolio for increased growth with the sale of a 50 per cent interest in 11 core office assets to Canada Pension Plan Investment Board for proceeds in excess of \$1,000 million. Under the terms of the agreement, Oxford will continue to manage the properties on behalf of the co-owners.

As a result of this and other sales and offset by market value appreciation, Oxford's real estate assets were \$6,180 million at December 31, 2005, a decrease of \$718 million from 2004. The real estate portfolio is financed with \$2,168 million of long-term debt.

At December 31, 2005, our direct portfolio consisted of 81 properties primarily in Canada with a total leaseable area of 44.2 million square feet and 2,380 residential units. The portfolio composition is as follows:

	Number of Properties	Percentage of Portfolio Based on Market Value
Office	52	55%
Retail	13	36%
Industrial	7	4%
Residential	6	4%
Land held for development	3	1%
	81	100%

Oxford's office portfolio is diversified geographically in Canada across seven major urban markets. The largest concentration is in Toronto (representing approximately 56 per cent of the market value of the office portfolio) with investments in a number of properties, the most significant of which are BCE Place-Canada Trust Tower, Royal Bank Plaza, Metro Centre and the Richmond-Adelaide Centre. The other major urban centres are Calgary, Vancouver, Edmonton, Winnipeg, Ottawa and Montreal.

The retail portfolio comprises 13 properties, primarily super regional and regional shopping centres, totaling 13.4 million square feet, located across Canada but predominantly in Toronto. The more significant properties include 50 per cent ownership interests in Yorkdale Shopping Centre, Square One Shopping Centre, Scarborough Town Centre and the Oshawa Centre.

Oxford also manages a portfolio of private and public real estate securities and funds that were valued at \$274 million at December 31, 2005, a slight decrease from 2004 after accounting for sales and market value appreciation.

As a result of repositioning the real estate portfolio for growth, our exposure to real estate was 8.1 per cent at December 31, 2005 compared with 10.8 per cent in 2004. OMERS, through Oxford, remains committed to active management of a real estate portfolio that has a long-term asset allocation target of 12.5 per cent. Over the next several years we expect that Oxford will execute a broad range of new investment opportunities in Canada and internationally that will allow OMERS to achieve a long-term target exposure to real estate that is in keeping with Oxford's goal of ownership and management of large-scale assets, diversified by property type and geographic market, to achieve superior risk-adjusted returns.

Investment-Related Debt

OMERS has maintained a triple "A" credit rating from leading credit rating agencies. This has enabled us, where appropriate, to obtain debt financing at preferred rates to support our investment strategy. Utilizing this excellent credit rating and relying on the credit capacity of its underlying subsidiaries, OMERS has taken on debt in order to provide stable, low-cost financing for our real estate assets in the infrastructure and real estate portfolios. Debt outstanding through OMERS real estate operations included \$1,047 million of debentures, \$298 million of commercial paper, as well as \$823 million in secured and unsecured debt. In addition, our infrastructure portfolio was financed with \$1,397 million in secured and unsecured debt.

OTHER INVESTMENT STRATEGIES

To better manage risk and enhance returns for the total fund, we enter into a variety of derivative contracts. These contracts are used in combination with other investment assets and are a cost-efficient means to improve returns by mitigating uncompensated risks and to add flexibility to the asset mix. We held derivatives with a notional value of \$19,632 million at December 31, 2005.

We use foreign exchange forward contracts to manage our exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading to generate returns. At December 31, 2005, \$15,788 million or 38 per cent of OMERS net investment assets were exposed to foreign exchange risk before foreign currency management. Our largest foreign currency management strategy hedges 50 per cent of exposure to 13 major currencies, narrowing their volatility relative to the Canadian dollar. Our currency management programs produced income of \$639 million in 2005, an increase of \$359 million from 2004, as the appreciation of the Canadian dollar against the U.S. dollar and other currencies continued in 2005 and for currencies other than the U.S. dollar the increase was generally greater in 2005 compared with 2004.

We use derivative contracts to replicate non-Canadian equity index returns. This exposure to non-Canadian equities complements the global equities portfolios managed both internally and by external specialists. We also buy and sell equity options to improve the returns and mitigate the risk of our actively managed Canadian equity portfolio.

When appropriate, in the search for higher returns, we enter into financial contracts, such as swaps, that provide the return from a bond, equity or other reference index in place of cash investments. The money required to support the contract is invested in a debt instrument that earns income in excess of the amount we are required to pay on the swap agreement.

Derivatives are a cost-effective and risk-efficient means of putting to work money allocated for eventual investment in major assets, such as real estate, infrastructure or private equities. Derivatives also enable us to rebalance the total fund asset mix, or the asset mix within a class, on short notice to adjust for market shifts.

The credit risk exposure for derivatives is the unpaid amount receivable from counterparties. We follow extremely prudent risk management policies, with our credit risk exposure limited to less than five per cent of total fund net assets. At December 31, 2005, the credit risk exposure was 0.5 per cent, or \$212 million, with all counterparties required to have a minimum "A" credit rating.

FACTORS AFFECTING FUTURE RESULTS

There are many factors that will impact future returns of the Plan. It is anticipated that the most significant will be general business conditions, monetary policy of central banks and changes in laws and regulations impacting OMERS and its investments.

General Business and Economic Conditions in the Regions in which We Invest

We invest in Canada, the United States, and other countries. Our earnings are significantly affected by the general business and economic conditions in the geographic regions in which we invest. These conditions include short-term and long-term interest rates, inflation, fluctuations in the debt and capital markets, exchange rates, the strength of the economy, and the level of investment we have in a specific region.

Monetary Policy

Monetary policies of central banks impact the general business conditions in the regions where we invest. We are most affected by the monetary policies of the Bank of Canada and the Federal Reserve System in the United States. Changes in the general level of interest rates directly affect investment income through the interest we earn on new interest bearing investments as well as the value of existing holdings. The valuation of our actuarial liability is also impacted by changes to long-term interest rates. Changes in monetary policy and in the financial markets are beyond our control and difficult to predict or anticipate.

Changes in Laws and Regulations

Laws and regulations have been put in place by various governments and regulators to protect the financial and other interests of OMERS members. Changes to laws and regulations, including changes in their interpretation or implementation, could affect OMERS by limiting or improving our ability to make investments and collect contributions.

During 2005 the 30 per cent limit on foreign property held by pension funds was eliminated. This allows OMERS the flexibility of adding value by participating to a greater extent in investment opportunities outside Canada.

On February 23, 2006, the Ontario legislature passed Bill 206 (*An Act to revise the Ontario Municipal Employees Retirement System Act*), which establishes a new independent governance model for OMERS. The legislation will take effect upon Proclamation, which is expected later this year. Under the legislation, a newly formed Sponsors Corporation composed of representatives of members and employers replaces the Government of Ontario as plan sponsor and will be responsible for all decisions on plan design and for setting contribution rates. The OMERS Board will be continued as the OMERS Administration Corporation, responsible for pension administration and investments. The new governance model puts OMERS in a position similar to other major public sector pension plans in Ontario.

Corporate Governance

OMERS strives to be a leader in terms of our internal governance practices. We expect the same of the companies in which we invest.

OMERS beneficially owns shares valued at nearly \$18 billion in publicly traded companies around the world. OMERS believes that companies that have strong corporate governance are generally more capable of creating value for shareholders. We prefer to invest in companies governed by directors who understand that the best interests of the shareholders are met by effectively managed corporations where management has a well thought out strategy for expanding the business, running it efficiently and achieving long-term profitability.

The most important tool we have for influencing policy among investee companies is exercising our ownership rights through our proxy votes. OMERS votes proxies diligently in accordance with specific guidelines that we believe will optimize the long-term value of our investments. Our *Proxy Voting Guidelines* set out OMERS policy on corporate governance matters and indicate how we will likely vote on individual issues. We consider the quality of a company's overall governance in deciding whether to vote for or against specific proposals. Votes are cast against those proposals we feel would dilute shareholder value.

OMERS is also a member of the Canadian Coalition for Good Governance whose purpose is to represent Canadian institutional shareholders through the promotion of best corporate governance practices and to align the interests of boards and management with those of the shareholder.

The *Proxy Voting Guidelines* and our voting record on major proposals for Canadian companies can be found on our web site, www.omers.com.

OUR KEY PROXY VOTING PRINCIPLES

OMERS *Proxy Voting Guidelines* are based on a number of key principles, including:

- Proper sharing of the rewards of the enterprise between stakeholders is essential to long-term prosperity and the generation of long-term value.
- Stakeholders involved in the corporate governance process accept their respective roles with a sense of fairness.
- A corporation that does not respond to public concerns or reasonable shareholder requests will eventually suffer in terms of its economic and capital market performance.
- Ownership rights should not be subordinated. Minority shareholders should not be treated differently from controlling shareholders.
- The proxy vote is an important asset of a pension fund. Fiduciaries are obligated to exercise their ownership rights by voting proxies diligently in order to optimize the long-term value of their investments.
- Effective management of the risks associated with social, environmental and ethical matters can lead to long-term financial benefits for the companies concerned and shareholders have a right to know about the activities of their companies.
- All fiduciary votes at board and shareholders' meetings should be confidential and tallied by an independent auditor as appropriate.
- Prompt disclosure of the results of votes at annual meetings is an important governance practice.

PROXY VOTING RECORD



CANADA	2,127
UNITED STATES	8,638
NON-NORTH AMERICAN	6,937
TOTAL	17,702

PROXY VOTES IN 2005

During 2005, OMERS voted a total of 17,702 ballots covering 2,242 shareholder meetings globally. In Canada, OMERS cast 2,127 ballots in 298 shareholder meetings. Outside of Canada, OMERS cast 15,575 ballots in 1,944 shareholder meetings.

Actuarial Opinion for the Ontario Municipal Employees Retirement Board

As at December 31, 2005

The most recent actuarial valuation of the registered pension plan benefits provided under the Ontario Municipal Employees Retirement System (the "Basic Plan") was conducted as at December 31, 2005 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purpose of the valuation was to fairly present the funded status of the Basic Plan as at December 31, 2005, for inclusion in this Annual Report in accordance with Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

The results of the actuarial valuation of the Basic Plan disclosed total going concern Actuarial Liabilities of \$41,123 million in respect of benefits accrued for service to December 31, 2005. The Actuarial Assets at that date were \$38,339 million, indicating a going concern Actuarial Deficit of \$2,784 million. Ongoing adequacy of the current contribution rates will need to be monitored to ensure that future contributions, together with the Basic Plan assets and future investment earnings thereon, will be sufficient to provide for all future benefits.

Full earnings pension benefits are benefits provided (using a Retirement Compensation Arrangement ("RCA")) in excess of the maximum pension benefits under the Basic Plan and are not fully pre-funded. The actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2005 (determined using assumptions consistent with those used for the Basic Plan except that the discount rate is adjusted to approximate the effect of the 50% refundable tax under the RCA), net of the RCA assets, was \$138 million. Contributions, based on the top-tier Basic Plan contribution rates, are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Basic Plan. It is expected that if contributions to the RCA continue, the annual cash inflow will be more than sufficient to cover the annual benefit payments for the foreseeable future.

The actuarial valuation of OMERS as at December 31, 2005 was conducted using membership data as at December 31, 2004 and financial information as at December 31, 2005 supplied by the Board. The December 31, 2004 membership was adjusted for the following:

- membership movements to December 2, 2005,
- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2006, and
- the estimated increase in earnings for 2005.

We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purpose of the valuation;
- the assumptions adopted are, in aggregate, appropriate for the purpose of the valuation; and
- the methods employed in the valuation are appropriate for the purpose of the valuation.

Nonetheless, the future experience of OMERS may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions given in accordance with accepted actuarial practice.

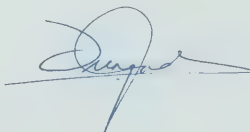
Respectfully submitted

Watson Wyatt & Company



Ian Markham

Fellow, Canadian Institute of Actuaries
February 24, 2006



Andrew K. Fung, F.S.A.

Fellow, Canadian Institute of Actuaries

Responsibilities of Management, the Actuary and External Auditors

The consolidated financial statements of the Ontario Municipal Employees Retirement System (OMERS or the System) have been prepared by management and approved by the Board. Management is responsible for the contents of the consolidated financial statements and the financial information contained within the Annual Report.

OMERS maintains systems of internal control and supporting procedures to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees. In addition, Internal Audit which reports directly to the Audit Committee, reviews OMERS system of internal control to ensure these controls are appropriate and operating effectively.

The Board is responsible for approving the annual consolidated financial statements. The Audit Committee, which is comprised of directors who are not officers or employees of OMERS, assists the Board in executing this responsibility. The Audit Committee meets regularly with management and the internal and external auditors to review the scope and timing of their respective audits as well as to review any internal control or financial reporting issues and their resolution. The Audit Committee reviews and approves the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the Board. It is the actuary's responsibility to carry out annual valuations of the actuarial liabilities of the System in accordance with accepted actuarial practice and to report thereon to the Board. The results of the actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the actuary values the benefits provided under the System using appropriate assumptions about future economic conditions (such as inflation, salary increases and investment returns) and demographic factors (such as mortality, turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its members and pensioners.


The external auditors are also appointed by the Board. Their responsibility is to report to the Board whether the consolidated financial statements present fairly, in all material respects, the net assets, actuarial liabilities and deficit of actuarial value of net assets over actuarial liabilities of the Fund and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings arising from their audit related to the integrity of the financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors use the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has given an opinion. The auditors' report outlines the scope of their examination and their opinion.

Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the Annual Report.

Based on my knowledge, the annual financial statements, together with the other financial information included in the Annual Report, fairly present in all material respects the net assets, changes in net assets and deficit of actuarial value of net assets over actuarial liabilities of OMERS as of the date and for the periods presented in the Annual Report.



Paul G. Haggis
President and Chief Executive Officer



Paul G. Renaud
Senior Vice President
and Chief Financial Officer

Toronto, Canada
February 24, 2006

Auditors' Report

To the Ontario Municipal Employees Retirement Board

We have audited the consolidated statement of net assets and the consolidated statement of application of net assets to actuarial liabilities and deficit of the Ontario Municipal Employees Retirement Fund (the Fund) as at December 31, 2005 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly in all material respects, the net assets and deficit of actuarial value of net assets over actuarial liabilities of the Fund as at December 31, 2005 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants

Toronto, Canada
February 24, 2006

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions)		
As at December 31,	2005	2004
Assets		
Investments (note 3)	\$ 51,586	\$ 40,955
Amounts due from pending trades	258	228
Other assets (note 5)	705	408
Total Assets	52,549	41,591
Liabilities		
Investment liabilities (note 6)	10,645	5,048
Due to administered pension funds	639	553
Amounts payable from pending trades	127	219
Other liabilities	73	116
Total Liabilities	11,484	5,936
Net Assets	\$ 41,065	\$ 35,655

Guarantees, commitments and contingencies are discussed in note 15.

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Signed on Behalf of the Board



Member



Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions)

For the year ended December 31,

	2005	2004
Changes Due to Investment Activities		
Net investment income (note 9)	\$ 5,515	\$ 3,694
Changes Due to Pension Activities		
Contributions (note 11)	1,534	1,409
Benefits (note 12)	(1,603)	(1,498)
Pension administrative expenses (note 13)	(36)	(43)
	(105)	(132)
Total Increase	5,410	3,562
Net assets at beginning of year	35,655	32,093
Net Assets at End of Year	\$ 41,065	\$ 35,655

The accompanying notes to the consolidated financial statements are an integral part of this statement.

**CONSOLIDATED STATEMENT OF APPLICATION OF
NET ASSETS TO ACTUARIAL LIABILITIES AND DEFICIT**

(Millions)

As at December 31,

	2005	2004
Basic Plan (note 7)		
Actuarial liabilities	\$ 41,123	\$ 37,774
Actuarial value adjustment of net assets	2,707	(1,168)
Deficit	(2,784)	(963)
Net Assets in Basic Plan	41,046	35,643
Retirement Compensation Arrangement (note 8)		
Actuarial liabilities	157	149
Deficit	(138)	(137)
Net Assets in Retirement Compensation Arrangement	19	12
Net Assets	\$ 41,065	\$ 35,655

The accompanying notes to the consolidated financial statements are an integral part of this statement.

Notes to Consolidated Financial Statements

NOTE 1 – DESCRIPTION OF THE PLAN

The Ontario Municipal Employees Retirement System (OMERS or the System) is a multi-employer pension plan established and administered under the *Ontario Municipal Employees Retirement System Act and Ontario Regulation 890 (OMERS Act)*. The Ontario Municipal Employees Retirement Fund (the Fund) is continued pursuant to Section 5 of the *OMERS Act*. The System provides pensions for various groups including, but not limited to, employees of Ontario municipalities, local boards, public utilities and school boards (non-teaching staff).

The Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency. The Plan is registered under the *Pension Benefits Act (PBA)* of Ontario, Registration #0345983.

- a) **Funding** – The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees and by the investment earnings of the Fund. Contributions are determined in accordance with the *OMERS Act*, the *Income Tax Act (Canada)* (*Income Tax Act*) and the *PBA*, according to the actuarial needs of the Plan.
- b) **Pensions** – The normal retirement age (NRA) is 65 years for all OMERS members except police officers and fire fighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty consecutive months of earnings. The OMERS pension is integrated with the Canada Pension Plan.
- c) **Death Benefits** – Death benefits are available to a surviving spouse or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefits may be paid in the form of a survivor pension, lump sum payment or both.
- d) **Withdrawals from the Plan** – Subject to lock-in provisions, a member that has terminated employment prior to retirement age has the option to withdraw his/her benefits from OMERS.
- e) **Escalation of Pensions** – Pensions benefits are protected from inflation through an annual adjustment equal to 100 per cent of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.
- f) **Disability Pensions** – A disability pension is available at any age to a member who becomes totally disabled as defined by the Plan. The pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings consistent with a standard pension. Disability pensions continue until normal retirement or until the member is able to return to work.
- g) **Income Taxes** – OMERS is a Registered Pension Plan as defined in the *Income Tax Act* and as such is not subject to income taxes for contributions or investment income received. The operations of certain entities holding private equity, infrastructure or real estate investments may be taxable where OMERS has taken over control of a previously taxable entity.
- h) **Retirement Compensation Arrangement** – The Retirement Compensation Arrangement (RCA) was established by OMERS to provide full earnings pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. The determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared on a going concern basis in accordance with Canadian generally accepted accounting principles and present the information of the Ontario Municipal Employees Retirement Fund including the Retirement Compensation Arrangement as a separate financial reporting entity independent of the employers and plan members.

Certain comparative figures have been restated to conform to the current year's presentation.

Consolidation

The consolidated financial statements are stated at fair value and include the assets, liabilities and operating results for all investment entities where OMERS has effective control. For investment entities where OMERS has joint ownership and control, a proportionate share of the fair value of assets, liabilities and operating results is included in the consolidated financial statements. Entities over which OMERS has significant influence are accounted for using the equity basis of accounting, stated at fair value.

Inter-company transactions and balances are eliminated in arriving at the consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts in the consolidated statement of net assets, the consolidated statement of changes in net assets and the consolidated statement of application of net assets to actuarial liabilities and deficit. Actual results could differ from these estimates. Significant estimates included in the consolidated financial statements relate to the valuation of private market investments and the determination of the actuarial liabilities.

Investments

All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date.

Investments are stated at fair value. Fair value represents the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted market price, if one exists. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Where a public market price is not available for an investment asset or liability, a suitable method of valuation is used, including the use of: discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. External appraisers may be used to provide independent valuations or verify the reasonableness of internal valuations. At a minimum, for significant private market investments, external valuations will be performed once every three years.

The difference between the value of an asset at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. Unrealized appreciation/depreciation in the fair value of investments is the change in fair value adjusted for cash flows during the year and is reflected in net investment income/loss in the consolidated statement of changes in net assets.

Fair values of investments are determined as follows:

- i) Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.
- ii) Bonds and debentures, real return bonds and public equities are valued at year-end quoted market prices where available. For these instruments and for mortgages and private debt where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities, independent asset appraisals, and financial analysis.

- iii) Private markets investments include investments in private equity, infrastructure and real estate assets either held directly or as a limited partner. For private market investments, the completion of a purchase or sale of an identical or similar investment is often the most objective determination of fair value. Other third party events can also provide input. While not exact, appraisal or valuation procedures are able to provide estimates or identify likely ranges that a reasonable arm's length third party would pay for such assets. OMERS private markets investments are valued as follows:

The fair value of investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values is equal to the appraised amount.

The fair value of non-operating and/or start-up private markets investments is equal to cost until there is a specific and objectively verifiable reason to change the value, supported by an appraisal or valuation.

The fair value of private markets investments acquired within the current fiscal year is equal to cost, unless there is a specific and objectively verifiable reason to change the value, supported by an appraisal.

The fair value of a private fund investment where OMERS ability to access information on underlying individual fund investments is prescribed, such as under the terms of a limited partnership agreement, is equal to the value provided by the fund's General Partner unless there is a specific and objectively verifiable reason to change the value.

- iv) Derivatives, including swap, futures, option and forward contracts, are recorded at fair value with unrealized gains and losses included in net investment income. Fair values are determined using quoted market prices, where available, or discounted cash flows using current market yields, where quoted market prices are not available.

Investment Income/Loss

Investment income/loss includes interest; dividends; operating income/loss from consolidated and equity accounted investment entities recorded on the accrual basis; gains and losses that have been realized on disposal of investments; as well as the unrealized appreciation and depreciation in the fair value of investments.

Where OMERS is able to exercise significant influence over the operations of a private market investment, then net income is recognized using the equity method and the investment is adjusted to its fair value. For private investments where OMERS is not able to exercise control or significant influence, income is recognized as dividends or distributions are declared.

Investment Liabilities

Investment liabilities include debentures, mortgages and other debt obligations, primarily related to investments in real estate and infrastructure. Investment liabilities also include OMERS liability to return cash collateral received in securities lending transactions. The fair value of investment liabilities is estimated using discounted cash flows based on current market yields, except for items that are short-term in nature, which are carried at their cost amount.

Amounts Due/Payable from Pending Trades

For securities transactions, the fair value of amounts due from pending trades and amounts payable from pending trades approximate their carrying amounts due to their short-term nature. For derivative contracts, unrealized gains and losses are included in amounts due/payable from pending trades.

Foreign Currency Translation

Certain OMERS investments are denominated in foreign currencies. The fair values of such investments are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the settlement is recognized in realized gains/losses on disposal of investments.

Other Assets

Other assets are comprised of contributions receivable, accounts receivable from the operations of the Plan, accrued income, infrastructure and real estate operational accounts receivable.

Due to Administered Pension Funds

Under contractual agreements, OMERS administers funds on behalf of The Board of Trustees of the Ryerson Polytechnic University, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor Fund. OMERS is authorized under the terms of the various agreements to recover its expenses for administering investments for the aforementioned plans.

The amount due to administered pension funds is credited with income based upon their proportionate share of OMERS investment income and the balance reflects the administered plans' proportionate share of the investments of the Fund.

Other Liabilities

Other liabilities include amounts received in prior years from employers for supplementary benefits that are now part of the Basic Plan and other payables relating to the operation of the Plan. The supplementary benefit amounts share in investment income and may be used by the employer to fund current year contributions.

Accrued Pension Benefits

The value of accrued pension benefits is based on an actuarial valuation prepared by an independent firm of actuaries. This obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the Board for the purpose of establishing the long-term funding requirements of OMERS. The actuarial valuation included in the consolidated financial statements is consistent with the valuation for funding purposes.

Actuarial Value of Net Assets and Actuarial Value Adjustment

The actuarial value of net assets has been determined by amortizing returns above or below the actuarial long-term rate of return assumption over a five-year period. The fair value of net assets is adjusted by the unamortized actuarial value adjustment to arrive at the actuarial value of net assets.

Contributions

Basic contributions from employers and members due to the Plan as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence, conversion of normal retirement age and contract adjustments and transfers from other pension plans are recorded when the purchase amount is received.

Benefits

Benefit payments to retired members are recorded as they are due at the first of each month. Commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits for active members are recorded as part of accrued actuarial liabilities.

NOTE 3 – INVESTMENTS

Investments before allocating the effect of derivative contracts and investment related assets and liabilities are as follows:

(Millions)	2005		2004	
	Fair Value	Cost	Fair Value	Cost
Public Market Investments				
Interest Bearing Investments				
Cash and short-term deposits	\$ 11,696	\$ 11,696	\$ 6,411	\$ 6,411
Bonds and debentures (i)	6,417	6,225	5,836	5,625
Real return bonds	1,660	1,265	1,266	1,028
Mortgages and private debt (ii)	1,569	1,494	1,562	1,472
	21,342	20,680	15,075	14,536
Public Equity				
Canadian public equities	8,466	5,471	6,638	4,202
Non-Canadian public equities	9,530	8,312	8,570	7,603
	17,996	13,783	15,208	11,805
Total Public Market Investments	39,338	34,463	30,283	26,341
Private Equity				
Canadian private equities (iii)	1,141	980	611	610
Non-Canadian private equities	1,248	1,272	849	928
	2,389	2,252	1,460	1,538
Infrastructure Investments	3,679	3,435	2,314	2,332
Real Estate Investments	6,180	5,920	6,898	7,077
Total Investments	51,586	46,070	40,955	37,288
Investment Related Assets				
Amounts due from pending trades	258	47	228	34
Other investment assets (note 5)	549	533	266	219
	807	580	494	253
Investment Related Liabilities				
Investment liabilities (note 6)	(10,645)	(10,462)	(5,048)	(4,915)
Amounts payable from pending trades	(127)	(50)	(219)	(1)
	(10,772)	(10,512)	(5,267)	(4,916)
Net Investment Assets	\$ 41,621	\$ 36,138	\$ 36,182	\$ 32,625

(i) Includes non-Canadian bonds and debentures with a fair value of \$194 million (2004 – \$nil).

(ii) Includes mortgages with a fair value of \$1,072 million (2004 – \$1,142 million).

(iii) Includes resource properties with a fair value of \$271 million (2004 – \$134 million).

OMERS participates in a securities lending program under which it lends securities it owns to others. For securities lent, OMERS receives a fee and holds cash or securities of higher value as collateral. As at December 31, 2005, securities with an estimated fair value of \$6,589 million (2004 – \$2,162 million) were loaned out, while collateral held had an estimated fair value of \$6,787 million (2004 – \$2,267 million) of which \$6,344 million (2004 – \$1,250 million) was cash collateral invested in short-term interest bearing investments.

At December 31, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets:

(Millions)	2005 Aggregate			2004 Aggregate		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Public market investments	2	\$ 849	\$ 694	2	\$ 693	\$ 678
Private market investments	4	2,928	2,355	4	2,008	1,837
	6	\$ 3,777	\$ 3,049	6	\$ 2,701	\$ 2,515

The public market investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets are interest bearing securities issued by the Government of Canada and equity securities of Manulife Financial Corporation. Private market investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include a limited partnership interest in Bruce Power, a Royal Bank of Canada structured note, an ownership interest in the Scotia Gas Networks PLC and a real estate ownership interest in Yorkdale Shopping Centre located in Ontario.

OMERS net investment assets by major asset class are as follows:

(Millions)	Public Markets					
	Interest Bearing	Public Equity	Private Equity	Infra-structure	Real Estate	Total
As at December 31, 2005						
Investment assets	\$ 21,342	\$ 17,996	\$ 2,389	\$ 3,679	\$ 6,180	\$ 51,586
Allocation of cash and other	(4,709)	4,230	69	240	170	—
Investment related assets	81	280	105	243	98	807
Investment related liabilities	(6,354)	(129)	(51)	(1,772)	(2,466)	(10,772)
Net investment assets	\$ 10,360	\$ 22,377	\$ 2,512	\$ 2,390	\$ 3,982	\$ 41,621

(Millions)	Public Markets					
	Interest Bearing	Public Equity	Private Equity	Infra-structure	Real Estate	Total
As at December 31, 2004						
Investment assets	\$ 15,075	\$ 15,208	\$ 1,460	\$ 2,314	\$ 6,898	\$ 40,955
Allocation of cash and other	(236)	86	31	62	57	—
Investment related assets	66	244	22	50	112	494
Investment related liabilities	(1,259)	(220)	(8)	(1,135)	(2,645)	(5,267)
Net investment assets	\$ 13,646	\$ 15,318	\$ 1,505	\$ 1,291	\$ 4,422	\$ 36,182

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate, market and credit risk. OMERS has formal policies and procedures that establish a target asset mix among interest bearing, public equity, private equity, infrastructure and real estate investments. OMERS policies also require diversification of investments within categories, and set limits on the exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 4).

Foreign Currency Risk

Foreign currency exposure arises from the Fund holding investments and entering into derivative contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. OMERS has a currency overlay program under which

a portion of OMERS foreign currency exposure is hedged through the use of foreign exchange forward contracts. The Fund also takes active trading positions in foreign currencies with the objective of adding value. The Fund's total currency exposure, impact of the currency overlay program (hedging and trading) and the net currency exposure as at December 31 are as follows:

(Millions Cdn dollar equivalent)	2005 Fair Value				2004 Fair Value			
	Total Exposure	Currency Overlay		Net Exposure	Total Exposure	Currency Overlay		Net Exposure
		Hedging	Trading			Hedging	Trading	
Canada	\$ 25,833	\$ 9,054	\$ 148	\$ 35,035	\$ 22,053	\$ 5,962	\$ (9)	\$ 28,006
United States	7,953	(4,936)	(200)	2,817	7,490	(3,188)	(136)	4,166
Euro Countries	2,423	(1,246)	(179)	998	2,116	(924)	(79)	1,113
United Kingdom	1,650	(1,199)	2	453	1,153	(667)	26	512
Japan	1,569	(761)	119	927	1,313	(628)	53	738
Other Pacific	889	(367)	(6)	516	861	(345)	52	568
Other Europe	662	(471)	34	225	672	(150)	32	554
Emerging Markets	642	(74)	82	650	524	(60)	61	525
	\$ 41,621	\$ -	\$ -	\$ 41,621	\$ 36,182	\$ -	\$ -	\$ 36,182

The above table allocates the total and net currency exposure of Canadian assets backing derivatives to the currency of the underlying asset or index from which the derivative contract derives its value.

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's investments due to fluctuations in interest rates. The risk arises from the potential impact of different interest rates on fair values of the Plan's assets and liabilities. Due to the indexing of benefit entitlements and the relatively long-term nature of pension benefits (notes 7 and 8), OMERS liabilities are influenced by inflation and long-term rates of return. Alternatively, asset values are mostly affected by equity markets and short-term changes in interest rates. The interest bearing portfolio has guidelines on concentration, duration and distribution, which are designed to mitigate the risk of interest rate volatility.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of the securities, are as follows:

(Millions)	2005					2004	
	Term to Maturity			Total	Average Effective Yield	Total	Average Effective Yield
	Within 1 Year	1 to 5 Years	Over 5 years				
Cash and short-term deposits	\$ 11,696	\$ -	\$ -	\$ 11,696	3.30%	\$ 6,411	2.30%
Bonds and debentures	1,302	1,524	3,591	6,417	4.06%	5,836	3.80%
Real return bonds	-	-	1,660	1,660	1.46%	1,266	2.04%
Mortgages and private debt	93	699	777	1,569	5.22%	1,562	5.11%
	\$ 13,091	\$ 2,223	\$ 6,028	\$ 21,342	3.53%	\$ 15,075	3.15%

Average effective yield represents the weighted average rate required to discount future contractual cash flows to current market value.

After giving effect to the derivative contracts and investment related assets and liabilities, a 1 per cent increase/decrease in nominal interest rates would result in an approximate decrease/increase in the value of interest bearing investments of 6.2 per cent (2004 - 6.1 per cent). Similarly, a 1 per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of the real return bonds of 14.1 per cent (2004 - 12.5 per cent).

Bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt of \$2,004 million (2004 - \$2,229 million) comprises 24.8 per cent (2004 - 31.4 per cent) of the fair market value of bonds and debentures (including real return bonds).

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. OMERS invests in a diversified portfolio of investments, based on Board approved policies, and utilizes derivative financial instruments, to mitigate the impact of market risk.

Credit Risk

The Fund is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria, which are designed to manage the Fund's credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 4.

NOTE 4 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets.

The Fund uses derivative financial instruments, when appropriate, to manage its asset mix and to assist in the management of exposure to financial risks, including interest rate, foreign exchange and market risks without directly purchasing or selling the underlying assets or currencies. In certain circumstances, derivatives are also used to increase returns or to replicate investments synthetically.

Types of contracts currently entered into by OMERS include:

Interest Rate Swaps

Interest rate swaps involve contractual agreements between two counterparties to exchange fixed and floating interest payments based on notional amounts.

Bond and Equity Swaps

Bond and equity swaps involve contractual agreements between two counterparties to exchange a series of cash flows based on changes in value of a bond or equity instrument, a basket of instruments or an index.

Bond and Equity Options

Bond and equity options are contractual agreements where the seller (writer) gives the right but not the obligation to a counterparty to buy (call option) or sell (put option) a specified quantity of a financial instrument on or before a specified future date at a predetermined price. The financial instruments may include a basket of bonds or equities, a bond or equity index or a single issue bond or equity instrument. The seller receives a premium from the counterparty for this right. Options may be exchange traded or transacted in the over-the-counter market.

Bond Forward Contracts

Bond forward contracts are contractual agreements to buy or sell an individual bond, a basket of bonds or a bond index at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Equity Index Futures Contracts

Futures contracts are agreements to either buy or sell specified equity indices at a specified price and date in the future. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash settlement of changes in fair value.

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future. OMERS uses foreign exchange forward contracts to provide exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading to add value to the Fund.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- enters into derivatives only on an unlevered basis; and
- arranges either master netting agreements or other credit risk mitigation in the form of up front collateral or periodic prepayments of the fair value of the contract on all derivative transactions.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following summarizes OMERS derivative portfolio and related credit exposure:

- **Notional value:** represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the consolidated financial statements.
- **Fair value:** Unrealized gains or losses from derivative contracts are recorded in the consolidated statement of net assets based on the fair value of the derivative contract. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.
- **Credit risk replacement cost:** represents the loss to which OMERS is exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts that permit offsetting of positions or any collateral which may be held.

(Millions)	2005			2004		
	Notional Value	Fair Value		Notional Value	Fair Value	
		Assets (i)	Liabilities		Assets (i)	Liabilities
Interest Rate Contracts						
Interest rate swap contracts	\$ 984	\$ 19	\$ (11)	\$ 1,283	\$ 19	\$ (23)
Bond index swap contracts	477	4	–	480	4	–
Bond options – purchased	–	–	–	111	–	–
	1,461	23	(11)	1,874	23	(23)
Equity Contracts						
Equity index futures contracts	4,834	–	(32)	5,045	1	(5)
Equity index swap contracts	1,127	44	–	985	27	–
Equity swap contracts	19	9	–	–	–	–
Equity options written (ii)	68	–	(2)	70	–	(1)
	6,048	53	(34)	6,100	28	(6)
Foreign Exchange Forward Contracts	12,123	136	(37)	13,250	143	(189)
Total	\$ 19,632	\$ 212	\$ (82)	\$ 21,224	\$ 194	\$ (218)

(i) The credit risk replacement cost is equal to the fair value of the assets.

(ii) The premium received on equity options written is \$3 million (2004 – \$2 million).

The term to maturity based on notional value is as follows:

(Millions)	2005				2004			
	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total
Under 1 year	\$ 1,067	\$ 6,048	\$ 12,123	\$ 19,238	\$ 1,381	\$ 6,100	\$ 13,250	\$ 20,731
1 to 5 years	327	—	—	327	427	—	—	427
Over 5 years	67	—	—	67	66	—	—	66
	\$ 1,461	\$ 6,048	\$ 12,123	\$ 19,632	\$ 1,874	\$ 6,100	\$ 13,250	\$ 21,224

NOTE 5 – OTHER ASSETS

(Millions)	2005	2004
Investment receivables	\$ 360	\$ 205
Deferred assets, prepaids and other	189	61
Other investment assets	549	266
Other non-investment assets	156	142
	\$ 705	\$ 408

NOTE 6 – INVESTMENT LIABILITIES

(Millions)	2005	2004
Long-term debt (a)	\$ 3,565	\$ 3,455
Payable under securities lending program (b)	6,344	1,250
Deferred revenue	90	106
Payables	646	237
	\$ 10,645	\$ 5,048

(a) Long-term debt comprises the following:

(Millions)	2005		2005 Weighted Average Interest Rate	2004		2004 Weighted Average Interest Rate
	Fair Value	Cost		Fair Value	Cost	
Real estate						
Secured debt (i)	\$ 821	\$ 773	5.36%	\$ 1,060	\$ 989	5.18%
Series A debentures (ii), (vi)	539	500	4.19%	530	500	4.57%
Series B debentures (iii), (vi)	508	500	4.01%	517	500	3.60%
Commercial paper (iv), (vi)	298	298	3.29%	285	285	2.54%
Unsecured debt	2	2	7.53%	3	3	7.52%
	2,168	2,073	4.47%	2,395	2,277	4.39%
Infrastructure						
Secured debt (v)	1,379	1,282	5.60%	1,041	1,026	6.07%
Unsecured debt	18	18	7.42%	19	19	6.14%
	1,397	1,300	5.62%	1,060	1,045	6.07%
Total	\$ 3,565	\$ 3,373	4.92%	\$ 3,455	\$ 3,322	4.91%

- (i) Includes mortgages and other secured debt with various terms to maturity up to 2027 with each debt instrument secured by a specific asset.
 - (ii) OMERS Realty Corporation Series A 5.48% Debentures issued November 27, 2002, maturing December 31, 2012.
 - (iii) OMERS Realty Corporation Series B 4.69% Debentures issued April 25, 2003 maturing June 2, 2008.
 - (iv) OMERS Realty Corporation Commercial Paper with maturities as at December 31, 2005 up to March 15, 2006.
 - (v) Includes mortgages and other secured debt with various terms to maturity up to 2031 with each debt secured by a specific infrastructure asset.
 - (vi) The rights of OMERS Realty Corporation debenture and commercial paper holders are subordinate to the claims of OMERS pension liabilities.
- (b) As part of the securities lending program, OMERS receives cash collateral that it invests in short-term interest bearing investments. OMERS is obligated to return the cash collateral upon termination of the arrangement.
- (c) Scheduled principal repayments for each of the five years subsequent to December 31, 2005 and thereafter are as follows:

(Millions)	
2006	\$ 376
2007	133
2008	775
2009	120
2010	190
Thereafter	1,779
	\$ 3,373

NOTE 7 – ACTUARIAL LIABILITIES AND DEFICIT – BASIC PLAN

The deficit of actuarial value of net assets over actuarial liabilities is calculated net of the liability of the full earnings pension benefits. The full earnings pension benefit was set up within the *OMERS Act* for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. These excess benefits are partially funded through the use of a Retirement Compensation Arrangement (note 8).

Actuarial Value of Net Assets

The actuarial value of net assets is established such that investment returns above or below the long-term return assumption for the year 2005 of 7.25 per cent (2004 – 7.25 per cent) are deferred and amortized over 5 years to adjust the value of net assets. For the year, \$2,347 million of investment income was credited to the actuarial valuation adjustment because the investment return was in excess of the long-term rate of return assumption. As a result, at December 31, 2005, OMERS has \$2,707 million in investment gains (2004 – \$1,168 million in investment losses) in an actuarial valuation adjustment reserve which will be recognized as follows:

(Millions)	Actuarial Valuation Adjustment as at Dec. 31, 2005	Unrecognized Investment Returns to be Recognized in				Actuarial Valuation Adjustment as at Dec. 31, 2004
		2006	2007	2008	2009	
2001	\$ –	\$ –	\$ –	\$ –	\$ –	\$ (983)
2002	(1,183)	(1,266)	–	–	–	(2,207)
2003	661	354	379	–	–	925
2004	882	314	336	360	–	1,097
2005	2,347	628	672	719	769	–
	\$ 2,707	\$ 30	\$ 1,387	\$ 1,079	\$ 769	\$ (1,168)

Accrued Pension Benefits

The actuarial present value of accrued benefits is an estimate of the value of pension and other benefit obligations of OMERS in respect of benefits accrued to date for all active and inactive members of the Basic Plan. This obligation is measured using the same actuarial assumptions and methods adopted by the Board for setting the long-term funding target. Since there is no intention of terminating the obligations for the foreseeable future, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, the actuarial basis may also change, which could cause a material change in the actuarial present value of accrued benefits.

The projected accrued benefit method (pro-rated on service) is used for the actuarial valuation. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages and gets closer to retirement. However, for a group with a stable demographic profile, annual costs will tend to remain stable when expressed as a percentage of the group's earnings.

The following actuarial assumptions have been used in the actuarial valuation of OMERS as at December 31:

	2005	2004
Assumed rate of inflation	2.75%	3.00%
Assumed rate of pensionable earnings increases (Estimate based on inflation plus an age-related increase)	4.25%	4.50%
Assumed actuarial rate of return on plan assets and discount rate	7.00%	7.25%

As a pension plan which provides 100% inflation protection, the Basic Plan's accrued benefit obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases which impacts future benefits and the assumed real rate of return on plan assets which is also used in the discounting of these future benefits. A 50 basis point change in the real rates for a particular assumption (with no change in other assumptions) would have the following approximate effects on the accrued benefit obligation:

50 basis point decrease/increase	Effect on Accrued Benefit Obligation
Rate of pensionable earnings increases	-/+2.7%
Real return on plan assets and discount rate	+/-7.8%

The accrued benefit obligation as at December 31, 2005, which follows, takes account of known changes in the Plan membership up to December 2, 2005, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2006, and an estimated pensionable earnings increase for 2005, which is based on the results of a survey of major OMERS employers.

(Millions)	2005	2004
Fair value of net assets of the Basic Plan at end of year	\$ 41,046	\$ 35,643
Actuarial value adjustment	(2,707)	1,168
Actuarial value of net assets at end of year	38,339	36,811
Accrued benefit obligation at beginning of year	37,774	35,466
Interest accrued on benefits	2,790	2,615
Benefits accrued	1,500	1,351
Benefits paid (note 12)	(1,600)	(1,496)
Plan amendments	13	69
Experience and other losses/(gains)	646	(231)
Accrued benefit obligation at end of year	41,123	37,774
Deficit of actuarial value of net assets over actuarial liabilities	\$ (2,784)	\$ (963)

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented on the going concern basis. Under the *Pension Benefits Act*, a solvency (hypothetical windup) valuation must be performed on the Plan, even though the risk of it being wound up is remote. This special valuation is performed for the Basic Plan only and assumes a liquidation scenario. As permitted by

the *Pension Benefits Act*, the solvency valuation uses the fair value of assets and a liability discount rate based on long-term nominal bond yields at the valuation date. Under this method, no allowance is made for future salary increments or future cost of living increases.

The actuarial present value of accrued pension benefits under the solvency valuation, excluding the full earnings pension benefits, was estimated to be \$40,255 million as at December 31, 2005 (2004 – \$32,099 million). As at December 31, 2005, the fair value of net assets, excluding the full earnings assets and allowing for a provision for expenses on windup, was \$40,985 million (2004 – \$35,583 million).

NOTE 8 – ACTUARIAL LIABILITIES AND DEFICIT – RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement (RCA) was established by OMERS to provide full earnings pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act* with respect to service after 1991.

The full earnings pension benefits are not fully funded but are operated on a modified pay-as-you-go basis in order to minimize the impact of the 50 per cent refundable tax applicable to RCA plans. Contributions under the full earnings plan (based on the top-tier Basic Plan contribution rates) are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Basic Plan – \$113,871 for 2005 (2004 – \$105,335). Benefits in excess of the maximum allowed by the *Income Tax Act* will be paid from the RCA.

Due to the funding policy adopted, the RCA liabilities continue to exceed the RCA assets. However, based on the assumption that contributions to the RCA will continue, it is expected that the annual cash inflow will be more than sufficient to cover the annual benefit payments and that the RCA assets will continue to grow in the foreseeable future. A relatively small increase in the number of terminations and retirements at the higher income levels, however, can increase actual benefit payments from and decrease actual contributions to the RCA. The Board has the latitude of increasing the contributions to the RCA if the current rate is projected to be insufficient to sustain the payments of the full earnings pension benefits.

Determination of the value of these excess benefits is made on the basis of a periodic actuarial valuation. The actuarial assumptions used are consistent with those used for the Basic Plan except that the discount rate as at December 31, 2005 is 3.5 per cent (2004 – 3.63 per cent), which is 50 per cent of the Basic Plan rate in order to approximate the effect of the 50 per cent refundable tax under the RCA. Such adjustment is made to reflect what would be the actual obligation of the full earnings pension benefits if they are to be fully funded using an RCA. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the OMERS actuarial valuation.

(Millions)	2005	2004
Fair value of net assets at end of year	\$ 19	\$ 12
Accrued benefit obligation at beginning of year	149	69
Increase in benefit obligation due to RCA taxation	–	68
Interest accrued on benefits	5	5
Benefits accrued	7	7
Benefits paid (note 12)	(3)	(2)
Experience and other losses/(gains)	(1)	2
Accrued benefit obligation at end of year	157	149
Deficit of actuarial value of net assets over actuarial liabilities	\$ (138)	\$ (137)

NOTE 9 – NET INVESTMENT INCOME

OMERS investments are managed by the following major asset classes: Public Markets (which is comprised of OMERS investments in interest bearing investments including mortgages and private debt and OMERS investments in public equities); Private Equity; Infrastructure; and Real Estate.

Income from assets backing derivative financial instruments is reported in the particular investment category by major asset class. Realized and unrealized income from derivative financial instruments is \$1,136 million (2004 – \$698 million).

OMERS investment income for each major asset class is as follows:

2005

(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income	Investment Management Expenses (note 13), (iii)	Net Investment Income
Public markets (iv)	\$ 962	\$ 3,155	\$ 4,117	\$ (81)	\$ 4,036
Private equity (iv)	64	373	437	(52)	385
Infrastructure	157	263	420	(25)	395
Real estate (v)	440	353	793	(2)	791
	\$ 1,623	\$ 4,144	\$ 5,767	\$ (160)	\$ 5,607
Income credited to administered pension funds and supplementary retirement benefits					(92)
Net investment income					\$ 5,515

2004

(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income	Investment Management Expenses (note 13), (iii)	Net Investment Income
Public markets (iv)	\$ 851	\$ 2,152	\$ 3,003	\$ (75)	\$ 2,928
Private equity (iv)	41	110	151	(47)	104
Infrastructure	236	73	309	(17)	292
Real estate (v)	445	(1)	444	(8)	436
	\$ 1,573	\$ 2,334	\$ 3,907	\$ (147)	\$ 3,760
Income credited to administered pension funds and supplementary retirement benefits					(66)
Net investment income					\$ 3,694

(i) Net of total interest on real estate investment liabilities of \$124 million (2004 – \$138 million) and infrastructure investment liabilities of \$36 million (2004 – \$24 million).

(ii) Includes net realized gain of \$2,218 million (2004 – \$1,169 million).

(iii) Investment management expenses relate to corporate activity.

(iv) Total investment income for Public Markets and Private Equity are as follows:

(Millions)	2005			2004		
	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income
Public Markets						
Interest Bearing Investments						
Short-term deposits	\$ 128	\$ –	\$ 128	\$ 112	\$ –	\$ 112
Bonds and debentures	293	81	374	288	53	341
Mortgages and private debt	107	(15)	92	110	5	115
	528	66	594	510	58	568
Real return bonds	40	161	201	32	133	165
	568	227	795	542	191	733
Public Equity						
Canadian equities	146	1,754	1,900	116	891	1,007
Non-Canadian equities	248	1,174	1,422	193	1,070	1,263
	394	2,928	3,322	309	1,961	2,270
	\$ 962	\$ 3,155	\$ 4,117	\$ 851	\$ 2,152	\$ 3,003
Private Equity						
Canadian private equities	\$ 55	\$ 163	\$ 218	\$ 30	\$ 24	\$ 54
Non-Canadian private equities	9	210	219	11	86	97
	\$ 64	\$ 373	\$ 437	\$ 41	\$ 110	\$ 151

(v) Total investment income for Real Estate is as follows:

(Millions)	2005	2004
Revenue		
Rental	\$ 997	\$ 1,096
Investment	79	60
	1,076	1,156
Expenses		
Property operating and other expenses (i)	(512)	(573)
Operating income	564	583
Interest expense	(124)	(138)
	440	445
Net Gain/(Loss)		
Properties	386	53
Debt	7	(23)
Investments and other	(40)	(31)
	353	(1)
Total investment income	\$ 793	\$ 444

(i) Includes audit costs of \$1.6 million (2004 – \$1.5 million) and legal costs of \$4.9 million (2004 – \$4.6 million).

NOTE 10 – INVESTMENT RETURNS

Investment returns have been calculated in accordance with methods set forth by the CFA Institute and the Pension Investment Association of Canada.

	2005	2004
Interest bearing (i)	7.0%	7.5%
Real return bonds	15.2%	17.6%
Canadian public equities	23.6%	14.2%
Non-Canadian public equities (ii)	11.8%	11.5%
Private equity (ii)	23.2%	12.5%
Infrastructure (ii)	23.2%	31.0%
Real estate	26.0%	11.0%
Total Fund	16.0%	12.1%

(i) Interest bearing investments include short-term deposits, bonds and debentures, mortgages and private debt.

(ii) Return for non-Canadian public equities, private equity and infrastructure include the results of OMERS currency hedging related to the respective asset classes.

NOTE 11 – CONTRIBUTIONS

(Millions)	2005	2004
Basic (i)	\$ 1,498	\$ 1,363
Transfers from other pension plans	15	22
Other contributions (ii)	21	24
	\$ 1,534	\$ 1,409

(i) Basic contributions represent the required contributions for each member of the Plan and are funded equally by employers and employees. For NRA 65 members, the contribution rate was 6.0 per cent of salary up to \$41,100 (2004 – \$40,500) and 8.8 per cent of salary for earnings above that level. For NRA 60 members, the contribution rate was 7.3 per cent of salary up to \$41,100 (2004 – \$40,500) and 9.8 per cent of salary for earnings above that level.

(ii) Other contributions include amounts for leaves of absence, conversion of normal retirement age and contract adjustments.

NOTE 12 – BENEFITS

(Millions)	2005	2004
Members' pensions	\$ 1,410	\$ 1,353
Commuted value payments and members' contributions plus interest refunded	160	111
Transfers to other pension plans	33	34
	\$ 1,603	\$ 1,498

In 2005 total benefit payments from the Basic Plan were \$1,600 million (2004 – \$1,496 million) and from the Retirement Compensation Arrangement \$3 million (2004 – \$2 million).

NOTE 13 – PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

(a) Pension Administrative Expenses

(Millions)	2005	2004
Salaries and benefits	\$ 20	\$ 22
System development and other purchased services	7	12
Premises and equipment	4	6
Professional services (i)	4	2
Travel & communication	1	1
	\$ 36	\$ 43

(b) Investment Management Expenses

	2005				
(Millions)	Public Market	Private Equity	Infra-structure	Real Estate	Total
Salaries and benefits	\$ 22	\$ 15	\$ 21	\$ –	\$ 58
System development and other purchased services	7	–	–	–	7
Premises and equipment	4	1	1	–	6
Professional services (i)	2	3	1	–	6
Travel & communication	1	1	–	–	2
Investment operating and manager expenses	45	32	2	2	81
	\$ 81	\$ 52	\$ 25	\$ 2	\$ 160

	2004				
(Millions)	Public Market	Private Equity	Infra-structure	Real Estate	Total
Salaries and benefits	\$ 19	\$ 10	\$ 8	\$ 1	\$ 38
System development and other purchased services	12	–	1	–	13
Premises and equipment	5	1	1	–	7
Professional services (i)	2	1	1	–	4
Travel & communication	1	1	1	–	3
Investment operating and manager expenses	36	34	5	7	82
	\$ 75	\$ 47	\$ 17	\$ 8	\$ 147

- (i) Total professional services expenses include actuarial costs of \$1.0 million (2004 – \$1.0 million), audit costs of \$0.6 million (2004 – \$0.7 million) and legal costs of \$5.0 million (2004 – \$2.8 million).

NOTE 14 – EXECUTIVE COMPENSATION

The compensation amounts for 2005 and 2004 are included under salaries and benefits in note 13. The table below represents disclosure of base earnings, annual incentive plan, long-term incentive plan and other compensation earned in 2003, 2004 and 2005 by the President and Chief Executive Officer (CEO), the Senior Vice President and Chief Financial Officer (CFO) and the other individuals reporting directly to the CEO in 2005.

Name and Principal Position	Year	Base Earnings	Annual Incentive Plan (i)	Long-Term Incentive Plan (ii)	Other (iii)	Taxable Benefits (iv)
Paul G. Haggis (v) President and CEO	2005	\$ 425,000	\$ 374,999	\$ 133,123	\$ –	\$ 16,528
	2004	363,462	206,446	–	–	17,108
	2003	100,962	–	–	49,971	532
Paul G. Renaud (vi) Senior Vice President and CFO Finance and Administration	2005	\$ 360,000	\$ 346,500	\$ 105,547	\$ –	\$ 19,927
	2004	55,385	50,000	–	–	2,027
Paul Pugh (vii) Senior Vice President Public Investments	2005	\$ 310,481	\$ 168,902	\$ –	\$ 5,489	\$ 2,496
	2004	242,308	256,800	–	–	1,605
Debbie Oakley Senior Vice President Corporate Affairs	2005	\$ 195,422	\$ 80,612	\$ 111,493	\$ 10,254	\$ 988
	2004	202,144	57,936	74,329	17,596	1,053
	2003	190,080	53,944	–	10,000	1,056
Selma M. Lussenburg (viii) Senior Vice President General Counsel and Corporate Secretary	2005	\$ 275,000	\$ 189,062	\$ 93,701	\$ 10,258	\$ 1,846
	2004	163,942	137,500	–	5,600	741
Floretta Paladino (ix) Vice President Human Resources	2005	\$ 182,456	\$ 63,525	\$ 68,060	\$ –	\$ 864
	2004	153,282	55,918	34,975	10,000	814
Jennifer Brown (x) Senior Vice President Pensions	2005	\$ 192,096	\$ 154,513	\$ 67,552	\$ 2,685	\$ 709
R. Michael Latimer (xi) President and CEO OPGI Management GP Inc. (Real Estate)	2005	\$ 600,000	\$ 600,000	\$ –	\$ 30,000	\$ 22,367
	2004	510,000	480,000	–	25,577	17,158
Michael Nobrega (xi) President and CEO Borealis Capital Corporation (Infrastructure)	2005	\$ 400,000	\$ 752,000	\$ –	\$ 39,231	\$ 52,364
	2004	346,154	600,000	–	35,839	37,179
Ian Collier (xi), (xii) President and CEO Borealis Capital Corporation (Private Equity)	2005	\$ 400,000	\$ 300,000	\$ –	\$ 1,640,000	\$ 35,793
	2004	346,154	400,000	–	35,577	30,244

- (i) The annual incentive plan is based on a combination of achieving corporate and individual performance objectives, such as investment performance targets and pension service standards. The annual incentive plan amount relates to the year it was earned.
- (ii) The long-term incentive plan is awarded based on meeting pension and investment return objectives over a four-year performance period.
- (iii) Includes vacation cash-in, hiring, retirement, car and other allowances.
- (iv) Includes insurance, car and fitness benefits.
- (v) Joined OMERS on September 8, 2003.
- (vi) Joined OMERS on November 8, 2004.

- (vii) Joined OMERS on April 26, 2004.
- (viii) Joined OMERS on May 31, 2004.
- (ix) Direct reporting to the CEO commenced on March 1, 2004.
- (x) Assumed Senior Vice President, Pensions role on January 3, 2005.
- (xi) Employment commenced on February 21, 2004.
- (xii) In addition to base earnings and annual incentive amounts, Mr. Collier received from Borealis Capital Corporation, an OMERS entity, a retirement allowance of \$1.6 million for the termination of his employment contract that was necessary in connection with the sale and assignment of the general partnership interests in, and management of, the Borealis Private Equity Limited Partnership and the Borealis (QLP) Private Equity Limited Partnership for which Mr. Collier has since 2002 served as a required designated key man. Effective the date of closing of the transaction, December 30, 2005, Mr. Collier was no longer an employee of Borealis Capital Corporation.

NOTE 15 – GUARANTEES, COMMITMENTS AND CONTINGENCIES

As part of normal business operations, OMERS enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments include but are not limited to investments in mortgages, infrastructure, real estate and private equity limited partnership agreements. As at December 31, 2005, these future commitments totaled \$4.1 billion (2004 – \$2.5 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was \$488 million as at December 31, 2005.

As at December 31, 2005, OMERS was involved in litigation and claims which arise in the normal course of business. The outcome of such litigation and claims is inherently difficult to predict; however, in the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of OMERS.

NOTE 16 – RELATED PARTY TRANSACTIONS

Prior to February 2004, OMERS was party to an asset management services agreement with an investee (the “Asset Manager”) in the asset management business, in which OMERS owned a minority interest. Effective February 2004, OMERS purchased the shares of the asset manager that it did not already own for cash consideration of \$49.9 million. In 2004, prior to the purchase of shares, payments to the Asset Manager were \$7 million.

These transactions were in the normal course of operations and were measured at the exchange amount.

10 Year Financial Review

(\$ Millions)	2005	2004	2003	2002	2001	2000	1999	1998	1997	1996
NET ASSETS as at December 31										
Public markets	39,338	30,283	30,168	23,823	27,755	30,941	30,303	28,026	26,173	22,744
Private equity	2,389	1,460	914	1,021	1,031	1,128	849	508	474	422
Infrastructure	3,679	2,314	1,426	349	279	—	—	—	—	—
Real estate	6,180	6,898	6,920	7,747	8,181	4,707	4,126	3,995	2,729	2,450
	51,586	40,955	39,428	32,940	37,246	36,776	35,278	32,529	29,376	25,616
Other investment assets	807	494	578	733	652	637	493	297	244	270
Investment liabilities	(10,772)	(5,267)	(7,297)	(3,540)	(3,977)	(860)	(280)	(916)	(102)	(156)
Net investment assets	41,621	36,182	32,709	30,133	33,921	36,553	35,491	31,910	29,518	25,730
Non investment assets/(liabilities)										
Administered pension plans	(639)	(553)	(496)	(440)	(487)	(528)	(502)	(437)	(395)	(341)
Other assets/(liabilities)	83	26	(120)	(188)	(191)	(150)	(59)	(93)	(15)	(11)
Net assets	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378
CHANGES IN NET ASSETS for the period ended December 31										
Net assets, beginning of the year	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378	21,213
Changes due to Investment Activities										
Total investment income	5,767	3,907	3,751	(2,358)	(1,362)	2,114	4,711	2,949	3,778	4,163
Investment management expenses	(160)	(147)	(158)	(103)	(69)	(62)	(52)	(50)	(40)	(39)
	5,607	3,760	3,593	(2,461)	(1,431)	2,052	4,659	2,899	3,738	4,124
Administered pension plans and supplementary benefit agreements	(92)	(66)	(51)	28	4	(47)	(85)	(52)	(62)	(64)
Net investment income	5,515	3,694	3,542	(2,433)	(1,427)	2,005	4,574	2,847	3,676	4,060
Changes due to Pension Activities										
Contributions										
Basic	1,498	1,363	404	—	—	—	—	364	869	874
Other contributions	36	46	42	47	36	30	27	8	21	8
	1,534	1,409	446	47	36	30	27	372	890	882
Benefit Payments to Members										
Pensions paid	(1,410)	(1,353)	(1,246)	(1,153)	(1,034)	(916)	(817)	(761)	(699)	(661)
Commuted value and other payments	(193)	(145)	(110)	(149)	(159)	(129)	(188)	(159)	(113)	(95)
	(1,603)	(1,498)	(1,356)	(1,302)	(1,193)	(1,045)	(1,005)	(920)	(812)	(756)
Pension administrative expenses	(36)	(43)	(44)	(50)	(48)	(45)	(46)	(27)	(24)	(21)
Net assets, end of year	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378
APPLICATION OF NET ASSETS TO ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT) as at December 31										
Net assets in Basic Plan	41,046	35,643	32,087	29,500	33,236	35,867	34,921	31,372	29,100	25,372
Actuarial value adjustment of net assets	(2,707)	1,168	3,888	6,048	2,239	(1,913)	(3,957)	(3,135)	(3,310)	(2,845)
Actuarial assets – Basic Plan	38,339	36,811	35,975	35,548	35,475	33,954	30,964	28,237	25,790	22,527
Actuarial liabilities – Basic Plan	(41,123)	(37,774)	(35,466)	(33,034)	(30,955)	(28,104)	(25,462)	(22,283)	(21,105)	(19,660)
Surplus/(Deficit) – Basic Plan	(2,784)	(963)	509	2,514	4,520	5,850	5,502	5,954	4,685	2,867
Net assets in RCA	19	12	6	5	7	8	9	8	8	6
Actuarial liabilities – RCA	(157)	(149)	(69)	(63)	(71)	(54)	(42)	(41)	(39)	(39)
Deficit – RCA	(138)	(137)	(63)	(58)	(64)	(46)	(33)	(33)	(31)	(33)
TOTAL FUND ANNUAL RATE OF RETURN										
Time weighted return on market value	16.0%	12.1%	12.7%	–7.1%	–3.4%	6.2%	15.2%	10.1%	14.8%	19.3%
Benchmark	13.2%	9.9%	15.5%	–7.4%	–4.2%	4.1%	14.7%	10.7%	15.1%	18.0%
Funding requirement (including inflation)	6.4%	6.4%	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%	5.0%	6.4%

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OMERS

Annual Report 2006



Leadership in Investment Performance and Service Quality.

And in 2006, we did it as industry leaders.

Leaders in investment returns. Leaders in the service we provide.

We will keep doing it. That's our promise.

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OMERS members on the cover (left to right):

Bikram Chawla, Paramedic/AR Supervisor, Toronto Emergency Medical Services

Leverne Pierce, Office Administrator, Toronto District School Board

Bernice Tinsley, Retired Member, Clerical Staff, City of Hamilton with George

OMERS members on the inside cover (left to right):

Joy Henderson-Gregg (Supervisor, Davisville Child Care Centre) with Matthew Adams

Constable Victor P. Kwong, Toronto Police Service

Financial Highlights

NET INVESTMENT ASSET GROWTH

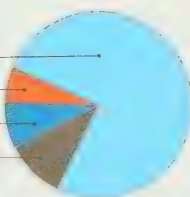
Market Value (\$ Billions)



ASSET MIX

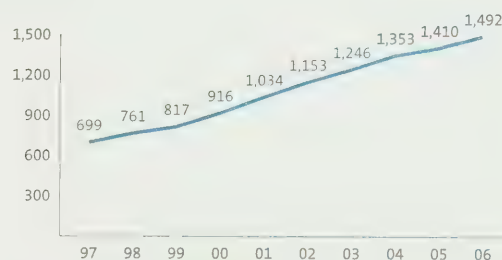
(as at December 31, 2006)
Net Investment Assets

75.8% Public Markets
6.0% Private Equity
7.9% Infrastructure
10.3% Real Estate



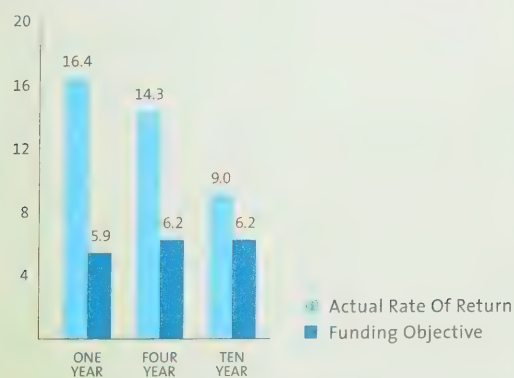
GROWTH IN

MEMBERS' PENSION PAYMENTS
(\$ Millions)



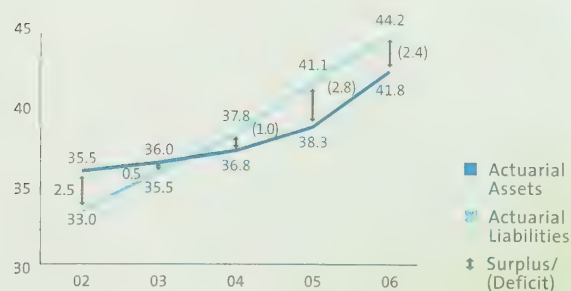
RATE OF RETURN

VS. FUNDING OBJECTIVE
(%)



ACTUARIAL ASSETS AND LIABILITIES – OMERS PRIMARY PENSION PLAN

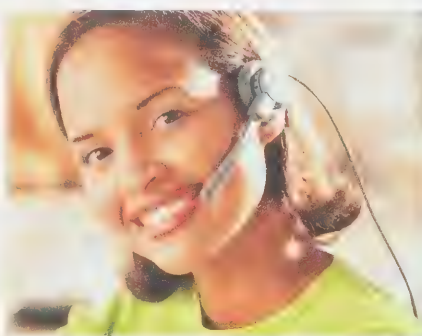
(as at December 31)
Market Value (\$ Billions)



This Is OMERS...

OMERS ADMINISTRATION CORPORATION (OMERS) IS THE ADMINISTRATOR OF THE OMERS PRIMARY PENSION PLAN (THE PLAN) AND THE RETIREMENT COMPENSATION ARRANGEMENT (THE RCA) ASSOCIATED WITH THE PLAN, AND IS RESPONSIBLE FOR INVESTING THE PENSION FUNDS

OMERS Operations

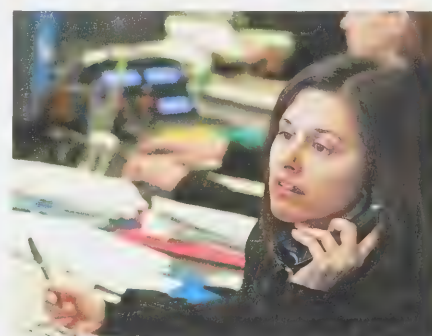


PENSION DIVISION

The Pension Division is OMERS primary link with its members, retirees and employers. Its mandate is to provide them with first-in-class pension services.

STRATEGY

- Continue to implement leading edge service enhancements such as new on-line access tools, employer forums, e-learning and communication programs.
- Continue to conduct regular surveys to measure service standards and to determine what services can be implemented or improved.
- Expand operational capability to allow for flexibility and expansion.



PUBLIC MARKET INVESTMENTS

OMERS public markets investments make up the majority of our investment portfolio. We have investments in publicly traded companies, as well as interest bearing investments such as bonds and mortgages. OMERS has developed global investment portfolios that capture growth and income opportunities, while diversifying risk.

STRATEGY

- Maintain portfolios of equities and interest bearing investments diversified by security type, geographic region, market capitalization, industry, investment style and term.
- Use tactical asset allocation to adjust the asset mix in response to economic and financial conditions.

The OMERS Primary Pension Plan is a multi-employer pension plan that serves over 372,000 current and former employees of more than 900 municipal governments, school boards, libraries, police and fire departments, children's aid societies and other local agencies throughout Ontario. The Plan is a contributory defined benefit pension plan. Equal contributions from participating employers and employees finance about 30% of benefits, while the Plan's investment earnings finance the remaining 70% over the long term.



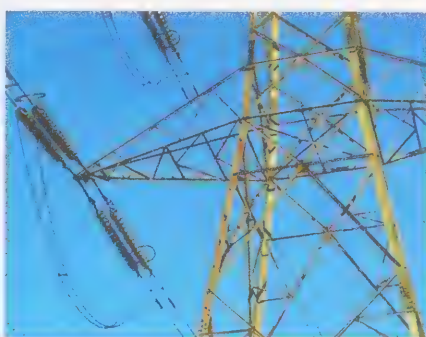
PRIVATE EQUITY

OMERS CAPITAL PARTNERS

OMERS Capital Partners invests in and manages OMERS private equity investments in the manufacturing, industrial and consumer products, transportation and technology sectors.

STRATEGY

- Build a private equity portfolio diversified by geographic market, industry focus and stage of company.
- Participate both as a limited partner in externally managed funds and as a direct equity investor.



INFRASTRUCTURE

BOREALIS INFRASTRUCTURE

Borealis Infrastructure invests in and manages OMERS infrastructure assets. Consistent cash flow and long-term capital commitments make infrastructure investments ideal for long-term pension obligations.

STRATEGY

- Develop global investment opportunities in sectors such as transportation, energy, infrastructure buildings, pipelines and satellite communications.



REAL ESTATE

OXFORD PROPERTIES GROUP

Oxford Properties Group manages one of North America's largest income producing commercial real estate portfolios. These investments generate strong and sustainable cash flow with low volatility, ideal for meeting pension obligations.

STRATEGY

- Develop a global real estate enterprise.
- Invest in and actively manage commercial real estate to achieve superior risk-adjusted returns, diversified by property type and geographic market.

Our Operating Principles

ONE – Ensure the quality of our balance sheet.

- Our assets are prudently invested and delivering a return that meets our needs within an appropriate risk profile.
- Our assets match our liabilities.
- Our assets and our liabilities are fairly valued.

TWO – Ensure that the right organizational structure – with clear lines of accountability – is in place to meet our objectives.

- Our organization is aligned for accountability and clarity of purpose.
- Our organizational structure allows active, hands-on management of our assets.
- Our organizational design provides value for the cost.
- Everyone at OMERS knows what is expected of them and of others.



THREE – Ensure that our members' needs are understood and met.

- We understand the needs of all our members.
- We deliver what our members want, where and when they want it, and at a price that represents value for them.

FOUR – Ensure we have the right people in the right jobs.

- Our business is organized around our primary asset: individuals making decisions.
- Our people are motivated, engaged and have the knowledge they need to achieve our aims.
- Our compensation programs reward performance.

FIVE – Ensure we have access to the right management information.

- We have the information we need to manage our business.
- Our management information is timely, accurate and actionable.
- This information is universally understood throughout our organization.

Dave Pressley, Horizon Utilities

David Kingston
Chair



It is clear that 2006 was a watershed year for OMERS, especially with respect to the changes introduced with the proclamation of the new OMERS Act. The legislation established a new and independent self-governance model. This is something the organizations that have a direct interest in our operations and success – groups representing employee members and employers, as well as the Board – had worked toward for some time.

The most fundamental difference with the new legislation is that the Plan and RCA are governed by the employers and members which is the case for most major public sector pension plans in Ontario. The new OMERS Act created a Sponsors Corporation with a new 14-member board that replaces the Ontario government as plan sponsor.

The Ontario Municipal Employees Retirement Board participated fully in the legislative process and made submissions to the Legislative Committee focused on amendments allowing for the proper administration of the Plan and investment of the pension funds. As fiduciary of the Plan, the Ontario Municipal Employees Retirement Board's sole mandate was to protect

the best interests of our members and to ensure that OMERS could continue to effectively administer the pension plan upon proclamation of the new OMERS Act. The Plan remains subject to the legal and regulatory framework applicable to Ontario registered pension plans.

The Ontario Municipal Employees Retirement Board continues as the newly named OMERS Administration Corporation. Our focus on managing our investments and administering the Plan has not changed. We will continue with our investment strategy, which earned a return of 16.4 per cent in 2006. Over the long term, investment earnings account for approximately 70 per cent of the funding for pensions. In short, we remain committed to earning superior investment returns to fulfill our pension promise and providing industry-leading pension services to employers and members. Nothing in the new OMERS Act changes our obligation to administer the Plan in the best interests of the members.

The new governance model calls for 14 board members. With the Sponsors Corporation taking over the role of plan sponsor there is no longer an Ontario government representative on the

“OMERS strives for excellence in Board governance practices. The growing complexity of our organization, greater accountability and globalization all contribute to a requirement for ongoing attention to governance.”

Board; instead the Board was expanded to include two new seats. This, combined with the vacancy created by the move of Marianne Love to the board of the Sponsors Corporation, meant we had three vacancies to fill. In the fall of 2006 the Board welcomed Ed DeSousa, Gerard Sequeira and David O'Brien. The Board would like to acknowledge Marianne Love, a representative of the Association of Municipalities of Ontario, for her wise counsel and dedication over the past seven years.

In addition to our ongoing work as the Administration Corporation, we are working with the Sponsors Corporation as it establishes its structure and processes. We are developing a strong working relationship with the Sponsors Corporation, and to help with the transition we have been developing background information and an orientation program for them.

BOARD GOVERNANCE

OMERS strives for excellence in Board governance practices. The growing complexity of our organization, greater accountability and globalization all contribute to a requirement for ongoing attention to governance. In 2005

our Board established a full standing Governance Committee to focus on both Board and corporate governance matters and ensure the use of best practices and structures that promote accountability.

Director education through an accredited director education program also forms an important part of OMERS governance strategy. All directors are required to complete a Director Certification program. We also provide each director a budget for supplemental education and regular internal education sessions are held with OMERS senior executives who provide in-depth analysis on different aspects of OMERS activities.

SUPPLEMENTAL PLAN

A second major initiative required by the new OMERS Act is the development of a new supplemental plan for members of the police sector, fire fighters and paramedics. This separately funded, stand-alone registered pension plan will give these members and their employers the opportunity to increase retirement benefits with additional contributions. Under the new OMERS Act the Sponsors Corporation has the authority to create supplemental plans

for other members by a two-thirds majority vote.

LEADERSHIP CHANGE

The impact of a new governance model and the supplemental plan extends to the nature of the CEO's position at OMERS. Recognizing this, the Board and Paul Haggis have determined that the time is right for a new CEO to develop a relationship for the longer term with the Sponsors Corporation and implement the supplemental pension plan.

OMERS engaged Paul Haggis to address our changing investment needs. Since he joined us, he has made a number of significant contributions, overseeing a major reorganization, developing a strong, new leadership team and implementing a successful investment strategy that has generated exceptional returns, including our superior performance in 2006. Paul Haggis has earned OMERS gratitude and respect for his leadership during this important period in our history.

I also thank Frederick Biro who served as OMERS Board Chair during 2004 and 2005. Fred was instrumental in leading OMERS through a significant

period of strategic refocus and all members will benefit from his contributions for years to come.

I am pleased that we did not need to extend our search for a new CEO beyond our own organization. The Board has appointed Michael Nobrega, former President and CEO of Borealis Infrastructure, OMERS new CEO effective March 12, 2007. This appointment speaks strongly to the quality of the people we have managing all areas of OMERS operations.

Mr. Nobrega has consistently delivered excellent investment results and put OMERS on the world stage as an astute infrastructure investor. He is a diplomatic leader who brings people together, creates collegiality and gets the job done. He has excellent relationships with all levels of government, with trade union leaders in the public and private sectors, and with leading institutional investment partners and major corporations around the world. The Board believes that these talents, combined with his deep understanding

of our investment strategy and his commitment to the new governance structure, make him the ideal choice.

Mr. Nobrega's initial priorities include ensuring the effective introduction of the supplemental plan, supporting the Sponsors Corporation, and enhancing relations with OMERS sponsors and stakeholders.

The Board has full confidence in Michael and the senior management team. OMERS is in outstanding shape thanks to Paul Haggis and all our employees. We pay pensions every month to more than 100,000 retirees – the population of a fair-sized city – and we serve more than 372,000 members overall. The security of our members' pensions remains our primary commitment.



David Kingston

Board Chair

March 9, 2007

Paul G. Haggis
President and
Chief Executive Officer



More than anything else, I believe that the strong performance outlined in OMERS 2006 Annual Report is the result of one characteristic – focus.

During an eventful year that required a major commitment from our people to ensure the smooth transition to a new governance model and the initial work required to develop and implement a new supplemental pension plan that could potentially impact many of our members and many of our employers, OMERS delivered on a promise that we made to all our stakeholders.

That promise was that we would not lose our focus on what is most important to them – achieving the strong investment returns required to secure their current and future pensions, and meeting the growing and varied pension service needs of our members and employers.

In fact, we achieved our strongest overall return in 10 years. One of the main reasons OMERS focus did not waver is that we have a clear vision of our long-term objectives, supported by operating principles, and explicitly defined priorities that clearly map out what we want to achieve.

During 2006 we launched a strategic plan to guide our activities through to 2009. It identified three key priorities that will allow us to achieve our vision of leadership and growth: a focus on strong investment performance combined with a continuing asset reallocation from public to private markets; responding to our members' and employers' needs for flexibility and service; and strengthening our organizational capacity.

In 2006, we made progress on all three priorities and in so doing, recorded one of the best annual results in OMERS history.

OUTSTANDING RESULTS FOR 2006

Our total fund rate of return in 2006 was 16.4 per cent, our highest in a decade, exceeding our benchmark of 13.7 per cent and last year's 16.0 per cent. For the second year in a row, the expertise of our investment professionals generated more than \$1 billion in incremental value for OMERS portfolio over and above our benchmark, and each of our investment business units exceeded their benchmarks, including our public markets investments which exceeded their benchmark by 0.7 per cent.

Our 2006 total fund real rate of return was 14.8 per cent, after deducting inflation of 1.6 per cent. This is substantially in excess of our long-term real return funding requirement of 4.25 per cent.

For a number of years, OMERS has ranked high among public sector pension leaders in terms of pension services. In 2006, we met or exceeded all but one of the many specific measures we monitor to ensure that we are fulfilling the needs and expectations of our members and employers.

While our pension administrative expenses rose slightly in 2006 after being reduced for three successive years, our focus on controlling costs ensured that the increase was a moderate 5.6 per cent despite a substantial level of activity related to the new governance structure and the costs associated with increased membership.

These results confirm the integrity of our vision, principles and strategy and the need to continue to pursue them.

STRATEGIC PRIORITIES – PROGRESS AND PLANS

FOCUS ON STRONG INVESTMENT PERFORMANCE

Our focus on achieving and sustaining strong investment performance during all phases of the economic cycle is built around our strategy to rebalance our investments between public and private markets. At the end of 2006 the proportion of OMERS assets invested in public equity and interest-bearing investments declined to 75.8 per cent, down from 80.2 per cent a year earlier. Our long-term target is 62.5 per cent.

OMERS investment philosophy has two main features. First, we have a strong absolute return strategy, which differs from many pension funds that pursue relative returns. This means our objective is not just to better benchmarks as they follow the economic cycle up and down, but to carefully build a portfolio that will earn a significant return in spite of the cycles. The second and interrelated feature is our activist investment posture. We take accountability for the assets in which we invest, we vote our shares in the best interests of our members and publish these votes

on our website, we work with the management of our private investments to ensure their growth plans are reasonable and feasible, and where we use external fund managers we monitor their performance very closely and hold them accountable.

This corporate approach has allowed us to achieve our objective of becoming a preferred investment partner in major international infrastructure and private equity projects which is essential in an environment where there is increasingly intense competition for alternative asset class investment opportunities.

MAJOR YEAR FOR ASSET ACQUISITIONS

Several major acquisitions during 2006 exemplify the kind of quality assets that will provide the stable returns necessary to meet OMERS long-term pension promise.

In March, Oxford Properties acquired an interest in Deutsche Annington Immobilien GmbH, one of Germany's leading residential real estate companies. In September, Oxford Properties purchased seven Canadian Fairmont hotels, including the legendary Banff Springs and Chateau Lake Louise

“Our focus on achieving and sustaining strong investment performance during all phases of the economic cycle is built around our strategy to rebalance our investments between public and private markets.”

properties. These are representative of a new global investment plan of real estate acquisitions and developments across the risk spectrum. This plan anticipates new investments in the vicinity of \$4 to \$6 billion over the next three to five years.

In 2006, Borealis acquired an interest in Associated British Ports and have now closed on the purchase of the Canadian laboratory services business of MDS Inc., Canada's largest provider of laboratory services, with more than 2,900 employees and annual revenue of \$335 million.

In December, OMERS Capital Partners purchased an interest in CCNMatthews, a leading distributor of news releases and other content to the media and investment communities, whose business is being propelled by the rapidly growing need for corporate disclosure.

Over the next two years we will continue our shift to private market investments as economic conditions allow, although public market investments will always retain a strong portfolio position. We will continue to invest in secure Canadian and foreign infrastructure assets directly, through

alliances with other sources of private capital, and enhance our position as a leading global infrastructure and private equity investment manager. In real estate, when the markets present appropriate opportunities, we will continue to harvest returns in our portfolio where values have been maximized, and exercise prudence with new investment activity in recognition of a potential slow down in the Canadian and global economies.

RESPONDING TO SERVICE NEEDS

In a year when the Pension Division could have been distracted by significant development work associated with our new governance structure and the supplemental pension plan, we maintained our focus. Over this past year we continued to enhance and expand our services based on regular member and employer feedback that tells us our pension services are meeting and exceeding their expectations.

Our plans for the short term include expanding our operational capability and relationships through initiatives such as employer forums and e-learning, and by continuing to improve on-line information and service access for employers and members.

STRENGTHENING OUR ORGANIZATION

None of our record accomplishments in 2006, nor our strategic plans and objectives for the next two years, would be possible without a highly developed organizational structure staffed by the best people in the investment and pension services business.

Over the past year, we have added to our internal audit and compliance groups with an objective to add value through consultative roles as both functions evolve and mature.

Our other organizational plans for the near term are to establish OMERS Public Market Investments as a distinct business unit and to continue to refine our compensation program to ensure it attracts and retains quality people and rewards performance. Effective communication with our employees remains a key to effective teamwork and alignment around our vision and goals. OMERS will continue to be a strong employment brand as a result of these initiatives.

While the anticipated slower economic environment may mean that it will be difficult to duplicate our investment performance of the past couple

of years, with our clearly defined plans our assets are projected to continue to grow substantially over the next three years, our balance sheet will remain strong and we expect the deficit will be significantly reduced by the end of 2008.

LEADERSHIP CHANGE

Together with the entire OMERS team, we have implemented specific investment and service strategies that have transformed OMERS into a clear industry leader. However, several events have altered the nature of my job. While our investment strategy and our key priorities will not change in the near term, the nature of the CEO's job has changed with the transition to a new governance structure, and the launch of the supplemental plan.

The Board and I agreed that the person who develops the relationships and structure necessary for our new governance model should be the person who sees them through. The

result is that I have stepped down as President and CEO of OMERS and Michael Nobrega, President and CEO of Borealis, and a superbly capable executive, will assume the role of OMERS CEO, effective March 12, 2007.

I wish to thank all of the OMERS family for their dedication and focus in creating a "first-in-class" global investment and pension management organization. It has been a pleasure to work with such a talented group of people and I wish Michael Nobrega and the OMERS team all the very best for the future.

Sincerely,

A handwritten signature in blue ink, reading "Paul G. Haggis".

Paul G. Haggis

President and CEO

March 9, 2007

Management's Discussion and Analysis

13	Vision and Strategy
15	Performance vs. Objectives
18	Corporate
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28	Private Equity Investments
30	Infrastructure Investments
32	Real Estate Investments
34	Pension Services
36	Risk Management
38	Critical Accounting Policies
38	OMERS Chief Executive Officer

OMERS Administration Corporation ("OMERS") is the administrator of the primary pension plan (the "OMERS Primary Pension Plan" or the "Plan") as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act") and the Retirement Compensation Arrangement ("RCA") associated with the Plan. This management discussion and analysis is the responsibility of management and contains management's analysis of OMERS financial condition, operational results and the environment in which it operates as of February 23, 2007. This section should be read in conjunction with the consolidated financial statements. The Audit Committee and Board of Directors of OMERS Administration Corporation have reviewed and approved the contents of this section.

In addition to historical information, this section contains forward-looking statements with respect to management's strategy, objectives, outlook and expectations. Forward-looking statements are preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". By their very nature, those statements are subject to risks and uncertainties, which may cause actual results to differ from the expectations expressed in the forward-looking statements. Forward-looking statements made in this section represent management's views at the date of this report and OMERS does not undertake to update or revise any forward-looking statements as a result of new information, future events, or otherwise.

Vision and Strategy

VISION

AT OMERS WE HAVE ONE CLEAR AND OVERRIDING OBJECTIVE: PAYING THE PENSIONS OF OUR CURRENT AND OUR FUTURE RETIREES.



Everything we do is to enable us to meet this objective including:

- Generating sufficient returns through the investment of the Plan's assets; and
- Providing pension administration services that meet our members' needs, the most important of which is to pay monthly pensions.

Our vision for OMERS focuses on four key areas which are integrated into our strategies and decisions:

LEAD

Be the leader in the pension industry.

At OMERS we want to be nothing less than the leader in the pension industry. We will earn this status if we rank at the top in investment performance and if we set the industry standard for service to members and employers.

PERFORM

Provide first-in-class investment management. We recognize the importance of earning superior returns to keep pensions secure.

SERVE

Deliver superior pension services to our members and employers. Services to Plan members are one of our top priorities and one of our key strengths.

GROW

Grow by attracting investment partners and employers through our leadership. Growth is an objective not for its own sake but because it will expand the range and size of investment opportunities we can pursue and allow us to improve our services for the benefit of all members and employers.

Kevin Ashfield, Executive Officer,
Toronto Professional Fire Fighters Association

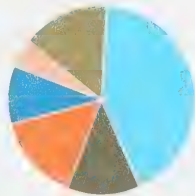


STRATEGY

IN ORDER TO MEET OUR PENSION OBLIGATIONS, THE PLAN MUST EARN A 4.25 PER CENT REAL RETURN (THAT IS, BEFORE THE IMPACT OF INFLATION) ON ITS INVESTMENTS OVER THE LONG TERM.

LONG-TERM ASSET MIX TARGETS

- 15.0% Interest Bearing
- 5.0% Real Return Bonds
- 42.5% Public Equity
- 10.0% Private Equity
- 15.0% Infrastructure
- 12.5% Real Estate



OMERS exercises prudence in determining its investment strategy which is based on an asset mix policy that will allow us to meet and exceed the long term return requirements with an acceptable level of risk. In determining the asset mix policy for the Plan we identify the asset classes that collectively are most likely to meet our pension obligations within the Plan's risk tolerance. We weigh the risk/reward profile of each asset class to ensure that we are reasonably compensated for risk and we invest in different asset classes and geographic markets to disperse risk and reduce the volatility of total returns. OMERS invests domestically and internationally in interest bearing investments, public equities, private equities, infrastructure and real estate investments, often in combination with derivative financial instruments.

We believe that over the long term, an asset mix with greater exposure to private market investments is better positioned to generate strong, predictable returns and consistent cash flow with reduced risk to meet the Plan's funding requirements.

Our investment strategy over the long term is to reduce our asset mix exposure to public equities and interest bearing investments from the current 75.8 per cent to approximately 62.5 per cent of the Plan's net investment assets with a corresponding increase in our asset mix exposure to private equities, infrastructure and real estate from 24.2 per cent to approximately 37.5 per cent of net investment assets. This asset mix policy is supported by foreign currency management, derivatives and absolute return strategies. Our investment professionals are managing this shift by constantly monitoring OMERS asset mix and making the necessary investments to achieve the target investment levels.

Over the long term, investment returns on the Plan's assets are expected to fund 70 cents of every dollar paid in benefits with the balance from employee and employer contributions.

Performance vs. Objectives

Our overriding objective is to fulfill the pension promise to our current and future retirees. To achieve this objective we must excel in our investment performance in order to meet the future payments of the Plan and the quality of service provided to our members. OMERS quality of service standards are discussed on page 34 of this Annual Report.

INVESTMENT PERFORMANCE OVERVIEW

OMERS invests in several asset classes and in several markets which are described more fully beginning on page 24 of this Annual Report. Returns for 2006 and 2005 are shown in the table to the right.

OMERS earned a 16.4 per cent total fund rate of return in 2006, compared with a 16.0 per cent total fund rate of return in 2005. This is the fourth year in a row that OMERS has earned a double digit return. After allowing for inflation of 1.6 per cent, the real rate of return was 14.8 per cent, which significantly exceeded our long-term real return funding requirement of 4.25 per cent. Net investment income totaled \$6,530 million in 2006, compared with \$5,515 million a year earlier.

Net assets include net investment assets of \$48,221 million, net pension related assets of \$125 million less the value of administered funds of \$741 million due to such funds.

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Public markets	16.2%	15.5%	12.6%	12.5%
Private equity (i)	17.7%	10.8%	23.2%	7.6%
Infrastructure (i)	14.0%	10.8%	23.2%	11.8%
Real estate (i)	26.2%	9.2%	26.0%	8.4%
Total	16.4%	13.7%	16.0%	13.2%

(i) Returns for private equity, infrastructure and real estate include the results of OMERS currency hedging program related to the respective asset classes.

NET ASSETS

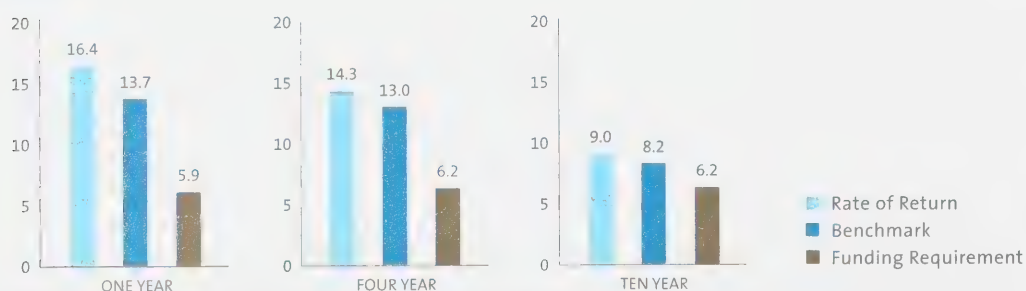
(Millions)	2006	2005
Net investment assets	\$ 48,221	\$ 41,621
Net pension amounts receivable and payable	125	83
Due to administered funds	(741)	(639)
	\$ 47,605	\$ 41,065

Net assets grew by \$6,540 million, or 15.9 per cent, to \$47,605 million in 2006 compared with an increase of \$5,410 million, or 15.2 per cent last year. The increase was due to strong performance in the Canadian and non-Canadian public equity markets, real estate, infrastructure and private equity investments.

CHANGES IN NET ASSETS

(Millions)	2006	2005
Changes due to investment activities	\$ 6,530	\$ 5,515
Changes due to pension activities	10	(105)
Net assets, beginning of year	41,065	35,655
Net assets, end of year	\$ 47,605	\$ 41,065

RATE OF RETURN, BENCHMARK RETURN, FUNDING REQUIREMENT (%)



Investment returns over the past ten years have exceeded the Plan funding requirement. The factors contributing to the funding deficit are discussed under the Plan Funding Status section on page 19 of this Annual Report.

We measure the performance of each of our investment asset classes against a benchmark that acts as the proxy for the market for each asset class. We develop a benchmark for total investment activities by aggregating and weighting the individual benchmarks consistent with our asset mix

policy. Our benchmarks are reviewed and approved by the Board. Our goal is to earn returns that exceed these benchmarks. When we exceed the benchmark, our investment managers are adding value to the portfolio above the targeted return for the asset class or the return generated by the markets through passive investments. For the year ended December 31, 2006, OMERS total return was 16.4 per cent, exceeding the aggregate benchmark of 13.7 per cent by 270 basis points (a basis point is one one-hundredth of a percentage

point) which represents value added of over \$1 billion. As illustrated in the graph on page 17, OMERS has frequently exceeded its benchmark; over the last three years the value added from actual fund returns exceeding the benchmark has totaled \$2.8 billion.

The benchmarks used by OMERS are based primarily on (i) externally computed indices that reflect the results of markets in which OMERS invests or (ii) an expected absolute return. The benchmarks used are as follows:



ASSET CLASS

BENCHMARK

Interest bearing

Blended Scotia Capital 31 day Treasury Bill Index and Scotia Capital Universe

Real return bonds

Scotia Capital Real Return Bond Index

Canadian public equities

S&P/TSX Equity Only Composite

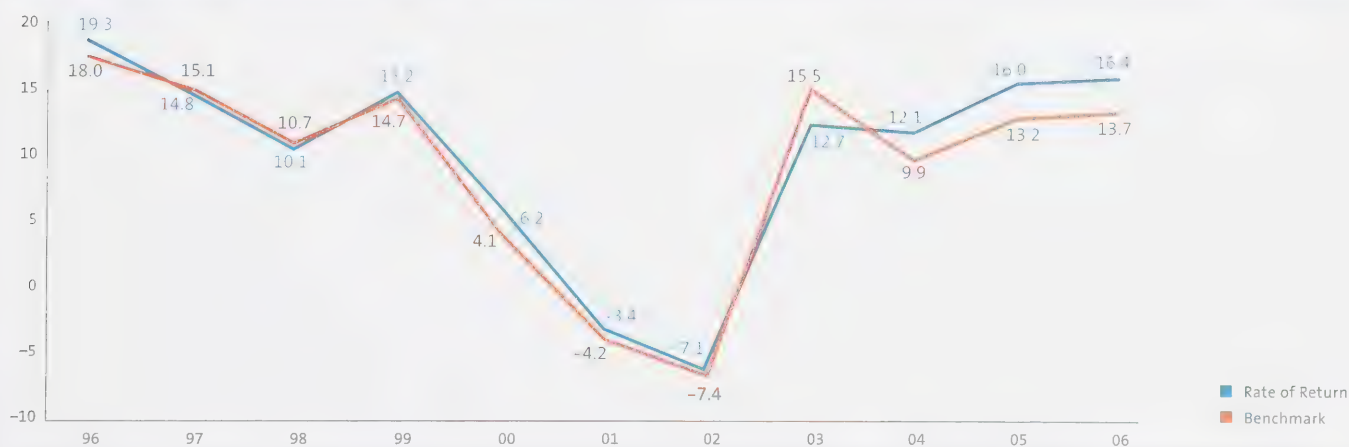
Non-Canadian public equities

Blended hedged FTSE All World Index excluding Canada and U.S., hedged FTSE All Cap U.S. Index and hedged custom Derivative Index

Private equity, Infrastructure,
Real estate

Absolute return set at the beginning of each year based on operating plans approved by the Board of Directors

ANNUAL RATE OF RETURN AND BENCHMARK (%)



Corporate

Governance

On June 30, 2006, the new *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act") was proclaimed into law and put in place a new autonomous governance model. This new model made our governance structure similar to that of other major public sector pension plans in Ontario. Under the OMERS Act, a Sponsors Corporation comprised of representatives of members and employers replaces the Government of Ontario as plan sponsor and is responsible for all decisions on Plan design and for setting contribution rates. The Ontario Municipal Employees Retirement Board was continued as the OMERS Administration Corporation, and continues to be responsible for pension administration and investments. These changes do not impact the day to day operations of OMERS and management's continued responsibilities. For further discussion of the OMERS Administration Corporation Board activities and an explanation of the new governance model, see Corporate and Board Governance on page 66 of this Annual Report.

Pension Plans

OMERS Primary Pension Plan is a multi-employer pension plan whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. It is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees as well as investment earnings of the Plan. The Plan has approximately 372,000 members.

The Plan's pension payments are integrated with the Canada Pension Plan as the benefit formula includes a bridge benefit paid to age 65. Including this bridge benefit, the benefits paid under the Plan are calculated by multiplying two per cent of the member's average annual earnings for the highest paid five consecutive years, times years of credited service, to a maximum of 35 years. At age 65 the bridge benefit of 0.675 per cent is subtracted for integration with the Canada Pension Plan. Inflation protection, survivor and disability benefits and early retirement options are also excellent features of the Plan.

In addition to the Plan for all members, OMERS maintains a full earnings pension plan through the use of a Retirement Compensation Arrangement ("RCA"), which provides pension benefits for members whose benefits under the Plan are limited by ceilings imposed by the *Income Tax Act*. The RCA provides a means to enable retirement savings and contributions on members' total earnings. The RCA is consolidated in OMERS financial statements and is accounted for separately from the Plan. Net assets of the RCA were \$29 million at December 31, 2006 and were \$19 million at December 31, 2005. The RCA financial statements are set out in note 8 to the OMERS consolidated financial statements on page 57 of this Annual Report.

The OMERS Act requires OMERS to establish and administer a Supplemental Plan to provide optional benefits for members of the police sector, fire fighters and paramedics. The Sponsors Corporation can establish other Supplemental Plans for other members of the Plan. Supplemental Plans are stand-alone registered pension plans which offer benefits not available in the OMERS Primary Pension Plan and are not funded from the Plan. There are no Supplemental Plans currently in place; however, as required by the OMERS Act, the first Supplemental Plan for members of the police sector, fire fighters and paramedics is to be established by July 1, 2008. The Province of Ontario has agreed to provide OMERS with funding to pay for the costs of establishing that first Supplemental Plan as such expenses can not be paid by the Plan.

Plan Funding Status

Each year an independent actuary determines the Plan's funding status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. On December 31, 2006, the estimated actuarial accrued pension obligation for all members including survivors of the Plan was \$44,167 million, compared with \$41,123 million a year earlier. The increase is primarily due to interest accrued on benefits, plus benefits accrued, partially offset by benefits paid in the year. The Plan had an actuarial value of net assets of \$41,785 million in 2006, compared with \$38,339 million in the prior year, resulting in a funding deficit of \$2,382 million as at December 31, 2006, compared with a deficit of \$2,784 million as at December 31, 2005.

The factors that have contributed to the funding deficit in the Plan include:

- The implementation of \$2,200 million of pension benefit improvements between 1998 and 2000, including guaranteed inflation protection of up to 6.0 per cent per year, improved spousal benefits and a change to the CPP offset formula.
- A federal government mandated full contribution holiday for employers and plan members that began in August 1998 and lasted until December 2002, which resulted in more than \$5,300 million in contributions that would normally have been made during this period not flowing into the Plan and not being available for investment.
- A significant decline in equity markets that resulted in OMERS recording negative returns in 2001 and 2002. Due to the actuarial smoothing process described below, the last of these losses was recognized in actuarial assets in 2006.
- Deferred recognition of the higher investment returns from the last four years as compared to the long-term return assumption due to the actuarial smoothing process.

Current Year Change in Deficit

(Millions)	2006	2005
OMERS Primary Pension Plan		
Deficit, beginning of year	\$ (2,784)	\$ (963)
Increase in net assets available for benefits	6,530	5,403
Change in actuarial valuation adjustment	(3,084)	(3,875)
Increase in actuarial value of net assets available for benefits	3,446	1,528
Less: increase in accrued pension benefits	(3,044)	(3,349)
Deficit, end of year	\$ (2,382)	\$ (2,784)

Although investment returns have exceeded the funding requirement since 2003, the actuarial deficit in the Plan, as predicted, has remained high. This is due to a \$3,044 million increase in the actuarial liability and to the recognition of the last year of losses that had been deferred and amortized in the actuarial valuation adjustment reserve as a result of returns below the long-term actuarial rate of return assumptions in 2002. This was partially offset by the smoothed recognition of gains above the long-term actuarial rate of return assumption from 2003 to 2006.

In arriving at the actuarial deficit, changes in the fair value of net assets above or below the long-term actuarial rate of return assumption are deferred and amortized over five years to "smooth out" the peaks and valleys in an individual year's investment returns caused by market volatility. Smoothing is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term market fluctuations on pension plan funding. The annual actuarial valuation adjustment is based on the difference between actual returns and the long-term return expectation (expected inflation plus 4.25 per cent, equivalent to 7.00 per cent in 2006) for the current year plus the four preceding years. This is in keeping with the long-term nature of the Plan and assists us in meeting our objective of maintaining stable contribution rates.

Investment returns were above the long-term actuarial rate of return assumption from 2003 to 2006 as Canadian and foreign public equity markets performed well. Private market investments also achieved strong results over this period. As a result, as at December 31, 2006, the actuarial valuation adjustment account now represents unrecognized net gains of \$5,791 million which will be recognized in actuarial assets over the next four years, with \$2,164 million to be recognized in 2007. The last of the actuarial losses related to the 2000 to 2002 market downturn were recognized through the actuarial smoothing process in 2006. On a market value basis, excluding smoothing adjustments, the net assets of the Plan exceed the accrued benefit obligation by \$3,409 million.

Funding Outlook

Under Ontario provincial regulations a pension plan must file an actuarial valuation report at least once every three years, and at that time must take measures to eliminate any funding deficit over a period not to exceed 15 years, typically through increased contributions or a change in the benefits offered. OMERS filed the Plan's December 31, 2004 actuarial valuation with the Ontario pension regulator in 2006 and based on a funding deficit of \$963 million at that time, the Board implemented an increase in contribution rates which averaged 0.6 per cent of a member's earnings for both employers and members on January 1, 2006. This was equivalent to a 9.0 per cent increase in the amount of contributions. The Plan's funded status and the need for any corrective action will be reviewed prior to the next government filing which must be made for either the 2006 or the 2007 year end. By the end of 2007, the deficit is expected to be lower due to the actuarial smoothing of unrecognized gains noted above, assuming no change to actuarial assumptions or any other plan changes or unfavourable plan experience that would increase our liability. The decision as to when to file the Plan's actuarial valuation with the regulator will be made by the OMERS Sponsors Corporation.

As a result of the contribution increase, the 2006 contribution rate for Plan members with a normal retirement age of 65 was 6.5 per cent of earnings up to \$42,100 and 9.6 per cent for earnings above that level. For members with a normal retirement age of 60, the 2006 contribution rate for earnings up to \$42,100 was 7.9 per cent and 10.7 per cent for earnings above that level.

The 2007 contribution rate for Plan members with a normal retirement age of 65 will be 6.5 per cent of earnings up to \$43,700 and 9.6 per cent for earnings above that level. For members with a normal retirement age of 60, the 2007 contribution rate for earnings up to \$43,700 will be 7.9 per cent and 10.7 per cent for earnings above that level.

Actuarial Assumptions

In calculating the funding deficit, the actuary makes various long-term economic and demographic assumptions. Demographic assumptions are updated to reflect Plan experience. Economic assumptions about future investment returns, i.e. the discount rate, and assumptions about inflation and member salary increases affect the projected value of future benefits. The actuary's major economic assumptions included in the valuation as at December 31, 2006, which were approved by the Board, are summarized as follows:

- **Inflation Rate**

OMERS uses an inflation rate assumption of 2.5 per cent for future years in the calculation of the nominal discount rate when estimating liabilities. Any variation in the actual inflation rate from this assumption will result in a variation in the actuarial liabilities of the Plan.

- **Discount Rate**

The Plan's annual nominal rate of return and discount rate for future years is assumed to be 6.75 per cent down from 7.0 per cent in 2005. This includes an assumption on annual inflation of 2.5 per cent, reduced from 2.75 per cent in 2005 and a real investment return assumption, based on OMERS asset mix, of 4.25 per cent, unchanged from 2005. A decrease/increase of 50 basis points in the real discount rate would result in an approximate increase/decrease of 7.8 per cent or approximately \$3,400 million in the actuarial liability of the Plan.

The real investment return assumption used in 2006 is unchanged from that used in 2005. It includes a margin for conservatism for potential adverse investment experience so that over the long term there is a greater chance of actuarial gains than losses arising from the Plan's assets. This assumption includes an estimate of the returns expected to be earned over the long term on the Plan's assets over and above fixed income returns, based on the current asset mix. In addition, the lower ratio of retired members to active members results in a low fixed income component in the asset mix as compared to several other public sector plans thereby allowing a somewhat higher real discount rate.

- **Salary Increases**

An assumption about future increases in the salaries of active members is needed to estimate the value of the liability. The salary increase assumption uses an age based scale which allows for increases in productivity as well as merit and promotion related earnings increases. For members with normal retirement age of 60, the assumption also includes service related increases. The assumed increase, including assumed inflation, averages 4.0 per cent at the December 31, 2006 valuation (4.25 per cent at the December 31, 2005 valuation).

Retirement Compensation Arrangement

As a consequence of the modified pay-as-you-go funding policy adopted for the RCA, its assets will remain small relative to its liability. However, our actuary estimates that if contributions to the RCA continue, the annual cash inflow will be sufficient to cover benefit payments and the RCA's assets will continue to grow for the foreseeable future. The actuarial liability for the RCA increased from \$157 million in 2005 to \$172 million at the end of 2006.

The RCA had an estimated funding deficit of \$143 million at December 31, 2006 compared with a deficit of \$138 million last year as shown below:

Changes in Deficit

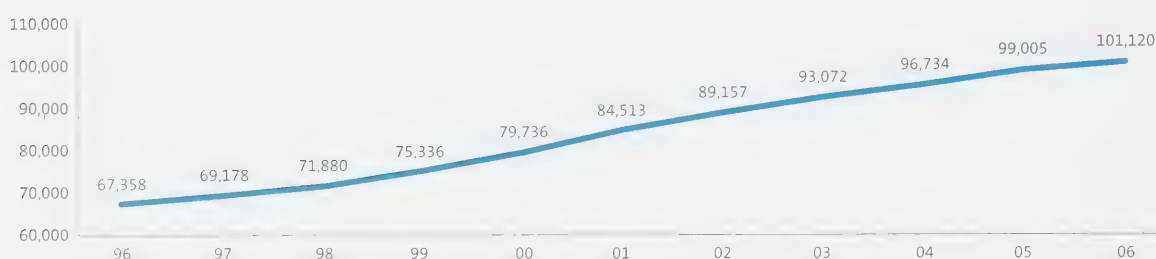
(Millions)	2006	2005
Retirement Compensation Arrangement		
Deficit, beginning of year	\$ (138)	\$ (137)
Increase in net assets	10	7
Less: increase in accrued pension benefits	(15)	(8)
Deficit, end of year	\$ (143)	\$ (138)

Pension Benefits and Contributions

In 2006, OMERS ended the year with over 101,000 retired members and survivors receiving pension benefits. Benefits paid from the Plan in 2006 were \$1,740 million, an increase of \$140 million over 2005 while benefits paid from the RCA in 2006 were \$4 million compared with \$3 million in 2005. The increase reflected new retirements, the adjustment of benefits for inflation and an increase in termination refunds and transfers to other plans.

Contributions for the Plan in 2006 were \$1,780 million compared with \$1,525 million in 2005. Contributions to the RCA in 2006 were \$12 million compared with \$9 million in 2005. The increase reflects higher contribution rates in 2006, a larger number of active members and an increase in members' salaries.

GROWTH IN NUMBER OF PENSIONERS



Asset Mix

As discussed in the strategy section above, one of our corporate strategies is to shift the asset mix to 62.5 per cent public market investments and 37.5 per cent private market investments over the long term. As illustrated in the table below, in 2006 we made progress toward our long-term asset mix targets. At the end of 2006 private market investments comprise 24.2 per cent of our asset mix compared with 19.8 per cent at the end of 2005. As illustrated in the table on page 23, the market value of our net investment assets with exposure to private equity, infrastructure and real estate grew to \$11,656 million an increase of \$3,400 million, or 41.2 per cent over 2005. We will continue our disciplined investment approach over the next few years and we expect to move closer to our long-term targets.

	2006	2005	Long-Term Target
Public Markets			
Interest bearing	17.6%	18.9%	15.0%
Real return bonds	4.1%	4.0%	5.0%
Public equity	54.1%	57.3%	42.5%
	75.8%	80.2%	62.5%
Private Markets			
Private equity	6.0%	6.0%	10.0%
Infrastructure	7.9%	5.7%	15.0%
Real estate	10.3%	8.1%	12.5%
	24.2%	19.8%	37.5%

In determining OMERS asset mix exposure, the market value of cash and other investment related assets and liabilities included in net investment assets per the consolidated financial statements are allocated to the individual asset classes. In addition, to reflect asset class responsibility, derivative exposure and other items are allocated to arrive at OMERS ultimate exposure by asset class. Net investment assets based on the holdings per the consolidated financial statements and after all allocations are as follows:

(Millions)	December 31, 2006			December 31, 2005		
	Holdings	Asset Mix		Holdings	Asset Mix	
		Exposure	%		Exposure	%
Public Markets						
Interest bearing	\$ 19,162	\$ 8,476	17.6%	\$ 19,682	\$ 7,836	18.9%
Real return bonds	1,969	1,977	4.1%	1,660	1,664	4.0%
Total interest bearing	21,131	10,453	21.7%	21,342	9,500	22.9%
Public equity	22,442	26,112	54.1%	17,996	23,865	57.3%
	43,573	36,565	75.8%	39,338	33,365	80.2%
Private Markets						
Private equity	2,911	2,876	6.0%	2,391	2,497	6.0%
Infrastructure	5,585	3,833	7.9%	3,719	2,388	5.7%
Real estate	8,541	4,947	10.3%	6,180	3,371	8.1%
	17,037	11,656	24.2%	12,290	8,256	19.8%
Investment related assets	699	—	—	765	—	—
Investment related liabilities	(13,088)	—	—	(10,772)	—	—
Net investment assets	\$ 48,221	\$ 48,221	100.0%	\$ 41,621	\$ 41,621	100.0%

Long-Term Debt

OMERS has maintained a triple "A" credit rating from leading credit rating agencies. This has enabled us, where appropriate, to obtain debt financing at preferred rates to support our investment strategy. Debt outstanding through OMERS real estate operations at December 31, 2006 includes \$1,033 million of debentures, \$1,138 million of commercial paper as well as \$735 million in secured and unsecured debt. As discussed on page 32 under Real Estate Investments, we increased our commercial paper program by \$1,000 million during 2006 to fund the acquisition of seven hotel properties from Fairmont Hotels and Resorts. In addition, our infrastructure and private equity portfolios are financed with \$1,644 million and \$41 million, respectively, in secured and unsecured debt.

Corporate Expenses

Investment management expenses were \$169 million in 2006, compared to \$160 million in 2005. The increase of 5.6 per cent is primarily related to higher third party investment manager costs as we raised our exposure to global public equity markets. As a percentage of net investment assets, total investment expenses declined slightly in 2006. Pension administrative expenses were \$38 million for the year, compared with \$36 million for the previous year, an increase of 5.6 per cent which is primarily due to higher salaries and benefits and communication costs, partially offset by lower premises and professional services costs. This is the first time in the last four years that pension administrative expenses have increased.

Public Market Investments

Public market investments include OMERS investments in bonds, other interest bearing assets and publicly traded equities. These investments are often made in combination with a variety of derivative financial instruments.



75.8%
Asset Mix Exposure
as at December 31, 2006

(l-r) James Donegan, Graham Pugh, Barbara Bale,
Paul Pugh, Cathy Carlin, Kirby Connor



The investment expertise of the Public Markets team capitalized on strong Canadian and global public equity markets in 2006 to achieve significant returns. Public markets generated net investment income of \$4,870 million compared with \$4,041 million a year earlier. Public market investment returns excluding the impact of OMERS currency hedging, were 16.2 per cent compared with a benchmark of 15.5 per cent and a return of 12.6 per cent in 2005. The increase from the prior year is attributable to significantly higher returns in non-Canadian public equity markets in 2006 when OMERS non-Canadian public equities returned 20.0 per cent compared with 11.8 per cent in 2005.

INTEREST BEARING INVESTMENTS

Interest bearing investments are a natural fit for a pension plan seeking reliable low-risk returns that offset the more volatile nature of publicly traded equities.

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Interest bearing	4.7%	4.1%	7.0%	6.3%
Real return bonds	-2.9%	-2.9%	15.2%	15.2%
Canadian public equities	21.3%	20.2%	23.6%	24.2%
Non-Canadian public equities (i)	20.0%	19.3%	11.8%	11.2%

(i) Returns for non-Canadian public equities include the results of OMERS currency hedging program.

Interest bearing investments, excluding real return bonds, produced income before investment management expenses of \$514 million, a decrease of \$80 million or 13.5 per cent compared with 2005. The return for interest bearing investments, excluding real return bonds was 4.7 per cent compared with 4.1 per cent for the benchmark and 7.0 per cent a year earlier. The return of 0.6 per cent over the benchmark is primarily due to the successful anticipation of changes in interest rates, positioning the portfolio to take advantage of a narrowing of the gap between long term and short term interest rates, and an additional weighting in higher yielding provincial

bonds. Real return bonds produced a loss of \$49 million and had returns of -2.9 per cent consistent with the benchmark of -2.9 per cent, however, well below the 15.2 per cent return achieved in 2005 caused by an increase in real interest rates in 2006, compared to the significant decline in real interest rates in 2005.

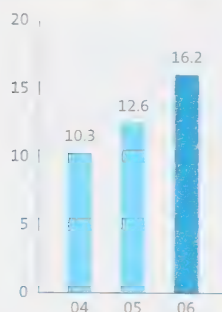
At December 31, 2006, total interest bearing investments held were \$21,131 million. Of this total, \$8,476 million was invested with exposure to bonds and debentures mortgages, private debt and money market and other short-term investments and \$1,977 million was invested with exposure to real return

The overall public market return in 2006 was

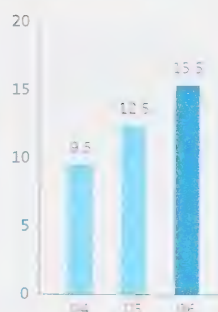
16.2%

compared with a benchmark of 15.5%.

RATE OF RETURN (%)



BENCHMARK (%)



Significant Public Markets Investments
 Government of Canada
 Interest Bearing Securities
 Manulife Financial Corporation
 Royal Bank of Canada
 Toronto Dominion Bank

bonds. In addition \$3,460 million were backing assets for derivatives programs that provide exposure to public equity markets and \$7,218 million related to cash collateral received as part of securities lending transactions and amounts allocated to other asset categories.

As at December 31, 2006, interest bearing investments consisted of federal bonds, provincial bonds, mortgages with a mix of commercial, industrial and multi-residential loans, real return bonds issued by governments, corporate bonds of institutional investment grade, private placements and short-term cash equivalent securities.

In the past 10 years, interest bearing investments, excluding real return bonds, have earned an annualized return of 7.2 per cent, including capital gains, due in part to the declining interest rate environment.

PUBLIC EQUITIES

At December 31, 2006, OMERS had \$9,518 million invested in Canadian public equities and \$12,924 million in non-Canadian public equities including both actively managed and non-derivative, quantitatively, managed portfolios. Included in the non-Canadian public equities are \$924 million of assets in absolute return and other long-short

strategies that are used as backing assets for equity derivatives. Exposure to public equities also includes \$3,562 million of exposure through the market value of non-equity assets backing equity derivatives and the allocation of \$108 million of cash and short-term investments and investment related assets and liabilities.

Public equity investments generated income before investment management expenses of \$4,489 million, \$2,010 million from the Canadian market and \$2,479 million from global markets. Canadian public equities plus Canadian equity derivative exposure earned a return of 21.3 per cent for the year, compared with a benchmark return of 20.2 per cent and a 23.6 per cent return in 2005. Non-Canadian public equities and non-Canadian equity derivative exposure earned a return of 20.0 per cent in 2006, compared with 19.3 per cent for the benchmark and an 11.8 per cent return in 2005. Although mitigated by our currency hedging program, the non-Canadian public equity return was aided by changes in the value of the Canadian dollar against foreign currencies as the Canadian dollar depreciated against the British pound and the Euro and only marginally appreciated against the U.S. dollar. These currencies

comprise approximately 78 per cent of OMERS foreign currency exposure.

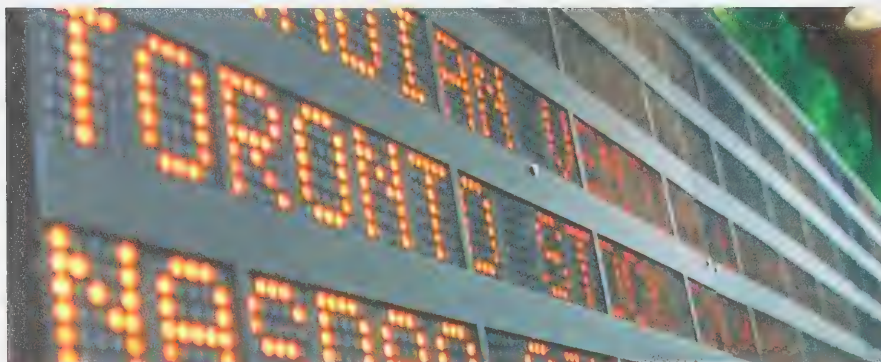
Actively Managed Equity Portfolios

The actively managed Canadian equity portfolio totaled \$8,090 million in 2006 compared with \$7,107 million in 2005 and contained approximately 218 publicly traded companies.

Our investment professionals are value investors who buy the shares of well-managed, profitable companies that can produce reliable long-term returns. They select, for example, companies that should gain value from synergistic acquisitions or that have a competitive advantage in their industry. Within approved asset allocation guidelines, staff can take advantage of short-term trading opportunities to generate added value.

Up to 10 per cent of our core actively managed portfolio can include U.S. equities. This enables us to add companies in economic sectors that are underrepresented in Canada, such as pharmaceuticals, or regional U.S. banks that have different valuation multiples and performance profiles than Canadian banks.

Within the actively managed Canadian equity portfolio OMERS manages the Canadian Focus Fund which



has a more specific mandate than the other OMERS equity investments in order to enhance overall investment returns. The Canadian Focus Fund had assets of \$1,383 million in 2006 representing 17 per cent of the actively managed Canadian equity portfolio. The Canadian Focus Fund's mandate is to invest in a select group of up to 30 Canadian equities which OMERS believes will earn above average returns over the long term. Specifically, the fund is invested in Canadian companies that have a combination of some or all of the following: low sustainable cost structures, strong manageable operating margins, strong balance sheets, good product innovation, efficient research and development, efficient capital management and high quality management. The more concentrated nature of the fund results in increased risk; however, we believe this risk is balanced by our expectation for enhanced returns over the long term.

Outside Canada, we had \$11,153 million actively invested in the equities of companies in the United States, United Kingdom, Europe, the Far East and emerging markets as shown in the above table. Participation in various global economies increases our portfolio diversification and lowers overall risk.

(Millions)	December 31, 2006		December 31, 2005	
	Holdings	(%)	Holdings	(%)
United States	\$ 4,419	39%	\$ 3,032	38%
Europe	2,768	25%	1,869	24%
Far East	1,632	15%	1,391	17%
United Kingdom	1,085	10%	791	10%
Emerging markets	1,249	11%	887	11%
	\$ 11,153	100%	\$ 7,970	100%

Our non-Canadian equity portfolios are actively managed by external investment firms that specialize in regional and national markets. Such a global mandate enables managers to make larger allocations by country, sector or capitalization where they believe higher returns are possible. During the year, non-Canadian equities managed by external investment firms increased due to market value appreciation and additional funds provided to external managers.

Quantitative Managed Equity Portfolios

Our investment professionals earn enhanced and less volatile returns from market indices by employing actively managed low-risk strategies that include index-based swaps, arbitrage and the anticipation of changes in index composition. Using technical analysis and computer modeling, these

strategies, referred to as quantitative management, are applied to:

Canadian Equity

- \$1,428 million in managed portfolios that target the S&P/TSX Composite excluding income trusts, the S&P/TSX 60 and other indices.

Non-Canadian Equity

- \$1,771 million in managed portfolios that target the Russell 1000 index and the S&P 500 index.

DERIVATIVE FINANCIAL INSTRUMENTS

In order to manage risk and enhance returns we enter into a variety of derivative contracts. These contracts are used in combination with other investment assets with the objective of providing a cost efficient means to improve returns by mitigating uncompensated risks and to add flexibility to the asset mix. Derivatives also enable us to rebalance the overall asset mix, or

the asset mix within a class, on short notice to adjust for market shifts. We held derivatives with a notional value of \$17,387 million at December 31, 2006, including \$11,977 million of foreign exchange forward contracts.

We use derivative contracts to replicate Canadian and non-Canadian equity index returns. This equity exposure complements the internally managed Canadian equities portfolio and global equities portfolios managed both internally and by external specialists. At December 31, 2006 OMERS had public equity derivative exposure of \$4,486 million through the market value of derivatives and assets backing derivatives as follows:

Canadian Equity

- \$1,154 million in derivative portfolios that provide exposure to the S&P/TSX Composite, the S&P/TSX 60 index and other indices.

Non-Canadian Equity

- \$1,904 million in derivative portfolios that provide exposure to the S&P 500 index;
- Various derivative portfolios totaling \$1,428 million that provide diversified exposure to major equity indices throughout the world.

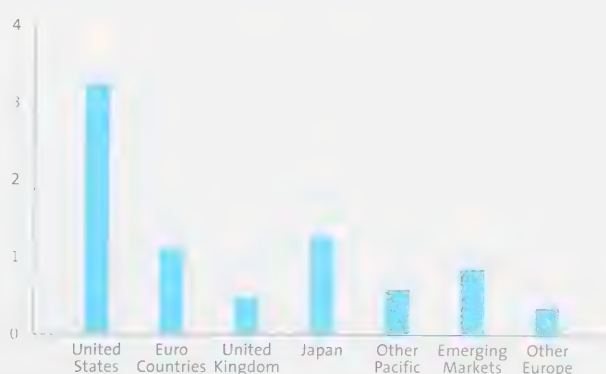
We use foreign exchange forward contracts to manage our exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading to generate returns. At December 31, 2006, \$18,795 million or 39 per cent of OMERS net investment assets were exposed to foreign exchange risk before foreign currency management. Our largest foreign currency management strategy hedges approximately 50 per cent of our exposure to 13 major currencies, narrowing their volatility relative to the Canadian dollar. In addition, for non-Canadian private market investments we hedge foreign currency exposure up to 100 per cent. Our currency management programs produced a loss of \$473 million in 2006, compared to income of \$639 million in 2005, caused by a significant depreciation of the Canadian dollar

against the British pound and the Euro in 2006, compared to a large appreciation in 2005. Since our currency hedging program was implemented in 2001, it has produced total income of \$799 million. Our net foreign currency exposure after the results of our foreign currency management and trading programs at December 31, 2006 was \$7,855 million and is allocated as shown in the chart below.

The credit risk exposure for derivatives is the unpaid amount receivable from counterparties. We follow prudent risk management policies, limiting our derivative credit risk exposure to less than five per cent of total fund net assets. At December 31, 2006, the credit risk exposure was 0.2 per cent, or \$80 million, with all counterparties required to have a minimum "A" credit rating.

NET FOREIGN CURRENCY EXPOSURE

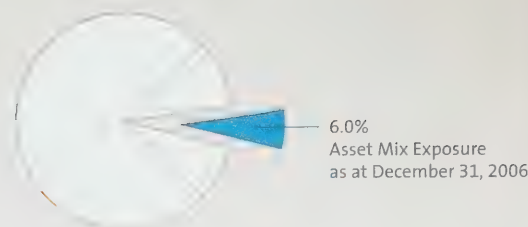
as at December 31, 2006 (Billions, Cdn Dollar Equivalent)



Private Equity Investments

OMERS private equity investments are managed by OMERS Capital Partners (OCP). OCP continues to build and strengthen investment relationships globally which will be the foundation for future investments to meet or exceed the long-term return objectives.

(l-r) John Young, Paul Renaud, Michael Lank, Don Morrison, Martin Day, Michael Graham



At December 31, 2006, the private equity portfolio team managed 43 fund relationships and 24 direct investments. This includes representing OMERS interests on 11 company boards and 32 fund advisory committees.

Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly. Our goal over the long term is to build a portfolio of private equity investments diversified by geographic market, industry sector, size of company and type of investment that will represent approximately 10 per cent of our asset mix.

Our private equity investment strategy takes two forms. One involves investing as a limited partner in funds managed by external specialists around the world who have demonstrated the ability to consistently outperform their peers over time in selecting investee

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Private equity	17.7%	10.8%	23.2%	7.6%

companies. Generally the relationships that we establish also permit a co-investment strategy, whereby we can make an additional direct investment in an investee company alongside the investment being made by the partner-ship. The fund investments as a limited partner are generally in excess of \$50 million and as a co-investor generally in excess of \$25 million. Fund investments are an efficient means for OMERS to diversify its investment portfolio. The types of fund investments include leverage buyouts, venture capital, distressed situations and mezzanine debt.

The second form is direct investment, with significant equity positions. Our focus is primarily on companies

headquartered in Canada and when we decide to partner, it is with other like minded investors. Typical investments are expected to be in excess of \$50 million.

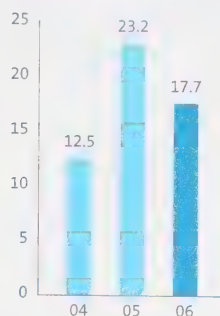
Private equity investments generated net investment income of \$360 million, compared with \$383 million last year. The 2006 return on total private equity investment income was 17.7 per cent compared with 10.8 per cent for the benchmark and a 23.2 per cent return in 2005. Although the income and return was quite strong in 2006, the decline from 2005 was the result of lower market valuation adjustments resulting from reduced oil prices impacting the value of our investments exposed to that industry segment.

The overall private equity return in 2006 was

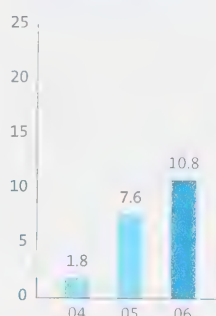
17.7%

compared with a benchmark of 10.8%.

RATE OF RETURN (%)



BENCHMARK (%)



Significant Direct Investments

Affinia Group Holdings
CCNMatthews
CEDA Holdings
Constellation Software
NXP (formerly, Philips Semiconductor)
OMERS Energy Inc.
Warner Chilcott

Significant Fund Investments

Hellman and Friedman
KKR
Sagard
Texas Pacific Group

Currently \$2,911 million is invested in private equity, with 53 per cent managed by fund managers in Canada, the United States, Western Europe and Asia. The remaining 47 per cent is directly invested in companies. Private equity percentage exposure remained unchanged representing 6.0 per cent of net investment assets at the end of 2005 and 2006.

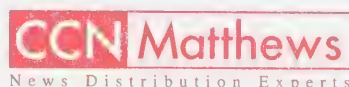
During 2006 private equity investments increased from \$2,391 million to \$2,911 million due to investments in both funds and direct investments. For funds, 15 new fund commitments for both new and existing relationships were made during the year totaling \$1,437 million. We expect that our investment in private equity will continue to grow as we fund existing unfunded commitments of \$2,100 million. We expect 2007 to be another strong year for new commitments as private equity global fundraising remains robust.

During 2006, we made \$217 million of direct investments including an interest in CCNMatthews, a leading distributor of news releases, multimedia

content and photographs to the media and investment community worldwide. We will continue to be responsive and proactive in seeking new direct investments where we can add value to deliver our required return.

Other significant investments include interests in:

- Affinia Group Holdings, a global aftermarket automotive parts manufacturer;
- CEDA Holdings, a leading industrial, mechanical and electrical services company which is well established in the Alberta oil sands;



An interest in CCNMatthews was acquired on December 22, 2006. CCNMatthews is a leading distributor of news releases, multimedia content and photographs to the media and investment communities worldwide.

- Constellation Software, a leading provider of software and services;
- NXP, a semiconductor manufacturer founded by Philips;
- OMERS Energy, an oil and gas exploration company located in Calgary, Alberta;
- Warner Chilcott, a leading, specialty pharmaceutical company focusing on women's health care; and
- fund investments with KKR, Sagard, Texas Pacific Group and Hellman and Friedman, which are leverage "buyout" funds that invest in a variety of businesses.

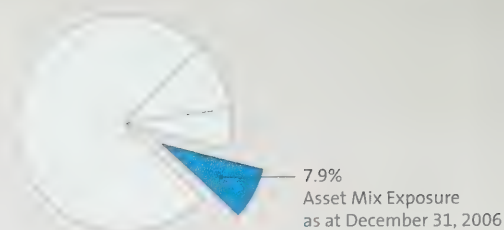


NXP is a semiconductor company with a fifty-year history of providing products and software that deliver better sensory experiences for mobile communications, consumer electronics, security applications, payment and connectivity, and in-car entertainment and networking.

Infrastructure Investments

Our infrastructure investments are managed by Borealis Infrastructure. Over the past several years Borealis has helped to develop infrastructure investing as an asset class for institutional investors and is one of the world leaders in sourcing and managing infrastructure investments.

(l-r) Rheal Ranger, Michael Rolland, John Knowlton, Michael Nobrega, Rob Watters, John McManus



Infrastructure investing involves direct investments in inflation sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both. Individual investments generally require capital commitments for a minimum of 15 to 20 years and typically generate consistent annual cash flows; a perfect fit in meeting our long-term pension obligations. Through Borealis Infrastructure, OMERS has become a significant investor in the infrastructure sector. Our assets include majority or minority positions alongside other pension, corporate and government investors.

Infrastructure investments generated net investment income of \$388 million, compared with \$393 million a year earlier. The 2006 return was 14.0 per cent, compared with 10.8 per cent for the benchmark and a 23.2 per cent return in 2005. Net investment income was essentially flat in 2006 compared

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Infrastructure	14.0%	10.8%	23.2%	11.8%

with 2005 as lower than expected earnings generated by the energy sector were offset by positive earnings generated by other sectors in the infrastructure portfolio. The infrastructure portfolio is partially funded by \$1,644 million in debt, most of which is secured by the related underlying asset, resulting in an interest expense of \$55 million in 2006.

At December 31, 2006, OMERS had \$5,585 million invested in infrastructure assets, an increase of \$1,866 million over the prior year. We increased our asset mix exposure to infrastructure in 2006 from 5.7 per cent to 7.9 per cent and we are making good progress toward our long-term asset mix goal of 15 per cent for infrastructure.

Our largest investment in our infrastructure portfolio is our limited

partnership interests in the Bruce Power nuclear power plant. Based on an agreement which was reached with the Ontario Power Authority in 2005, OMERS has committed to provide funding of approximately \$1,651 million between 2007 and 2011 to the restart and refurbishment of three of the eight reactors at Bruce Power. This will result in Bruce Power supplying approximately 25 per cent of Ontario's electricity by 2011 up from the current 20 per cent.

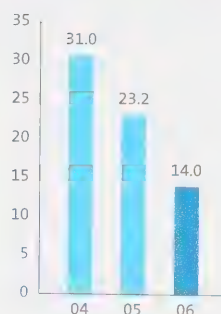
In August 2006, we also invested \$975 million in a one third interest in Associated British Ports PLC, the largest port operator in the United Kingdom. Associated British Ports owns 21 ports handling approximately 25 per cent of all marine traffic goods into and out of the United Kingdom.

The overall infrastructure return in 2006 was

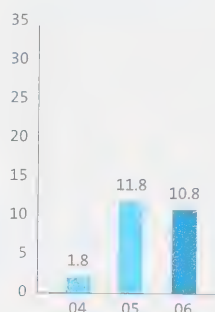
14.0%

compared with a benchmark of 10.8%.

RATE OF RETURN (%)



BENCHMARK (%)



Significant Investments

Bruce Power
Associated British Ports
Scotia Gas Networks
Express Pipeline
Detroit River Tunnel Partnership

During the year we reached an agreement to purchase the Canadian laboratory services business of MDS Inc., Canada's largest provider of laboratory services, for \$1,325 million. The company provides more than 50 million diagnostic tests to more than 10 million patients and nearly 20,000 physicians each year. This transaction closed on February 23, 2007.

Other significant investments made in previous years include interests in:

- Scotia Gas Networks which operates the Scotland and the South of England gas distribution networks, comprising approximately 73,000 km of gas lines serving approximately 5.6 million customers;
- Express Pipeline, a pipeline system that exports crude oil from Alberta to

the United States and serves refineries in six western and midwestern states;

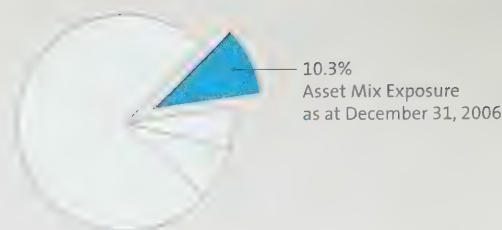
- The Detroit River Tunnel transports over 425,000 railcars annually making it one of the largest trade corridors in the world;
- Enwave Energy Corporation, which owns the largest deep lake water cooling service in the world and provides environmentally friendly heat and air conditioning to Toronto's downtown office core;
- Confederation Bridge linking Prince Edward Island and New Brunswick under a concession agreement with the federal government until 2032; and
- CIEL Satellite which will offer wholesale satellite capacity to the North American market.



(top) Southampton Port of the Associated British Ports. (bottom) Confederation Bridge between New Brunswick and Prince Edward Island.

Real Estate Investments

OMERS real estate investments are managed by Oxford Properties Group. Oxford is responsible for executing our strategy of developing a global enterprise in the real estate sector.



(l-r) Anna Kennedy, Paul Brundage, John Macdonald, Michael Latimer, Christopher Voutsinas



The strategy focuses on the ownership and management of large-scale assets, diversified by property type and geographic market to achieve superior risk-adjusted returns. Real estate investments of this nature generate reliable cash flows, facilitating our ability to meet current benefit obligations. Furthermore, well managed real estate generally appreciates in value over time in step with inflation, which offsets the inflation exposure of our pension liabilities. Today, Oxford is one of North America's largest commercial real estate investment and property management companies, overseeing and managing approximately \$15 billion of real estate for itself and on behalf of its co-owners.

Real estate generated net investment income of \$1,016 million, including operating income of \$350 million after interest expense as compared with net investment income of \$790 million a year earlier on operating income of \$392 million after interest expense. The real estate portfolio is partially funded

RETURNS AND BENCHMARKS

	2006		2005	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Real estate	26.2%	9.2%	26.0%	8.4%

by \$2,906 million in mortgages, debentures, commercial paper and other debt, which resulted in an interest expense of \$126 million in 2006. Based on total investment income of \$1,021 million before investment management expenses, the return for the real estate portfolio was 26.2 per cent in 2006, compared with a 2006 benchmark return of 9.2 per cent and a 26.0 per cent return in 2005. Real estate significantly exceeded its benchmark return and increased its total investment income by 28.8 per cent over 2005 primarily as a result of gains on sales of properties and favorable market value appreciation in the year.

Oxford's real estate assets were valued at \$8,541 million at December 31, 2006, an increase of \$2,361 million from 2005. Our asset mix exposure to

real estate increased to 10.3 per cent at December 31, 2006 compared with 8.1 per cent in 2005 due to net acquisitions during the year and valuation increases. As a result, we are making good progress toward our long-term asset mix goal of 12.5 per cent for real estate.

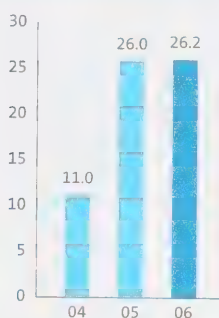
In September 2006, Oxford acquired seven iconic hotel properties from Fairmont Hotels and Resorts, allowing it to further diversify its real estate portfolio with a significant investment in this new asset class. The hotels include The Fairmont Banff Springs, The Fairmont Chateau Lake Louise, The Fairmont Chateau Whistler, The Fairmont Jasper Park Lodge, The Fairmont Vancouver Airport, Fairmont Le Chateau Montebello and Fairmont Kenauk at Le Chateau Montebello. The

The overall real estate return in 2006 was

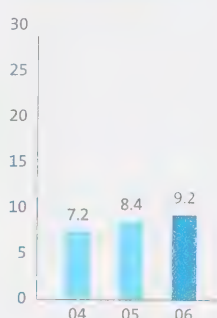
26.2%

compared with a benchmark of 9.2%.

RATE OF RETURN (%)



BENCHMARK (%)



Significant Investments

Royal Bank Plaza, Toronto
BCE Place-Canada Trust Tower, Toronto
Canterra Tower, Calgary
Yorkdale Shopping Centre, Toronto
Square One Shopping Centre, Mississauga
Scarborough Town Centre, Toronto

hotels will continue to be managed by Fairmont Hotels and Resorts. This acquisition was partially funded with a \$1 billion increase in our commercial paper program.

At December 31, 2006, our direct portfolio consisted of 84 properties primarily in Canada with a total leasable area of 40.9 million square feet, 2,924 hotel rooms and 2,380 residential units. The portfolio composition is shown in the table to the right.

REAL ESTATE PORTFOLIO COMPOSITION

	Number of Properties	Percentage of Portfolio Based on Market Value
Office	45	42%
Retail	13	29%
Industrial	9	5%
Residential	6	3%
Hotels and resorts	7	20%
Properties under development	1	1%
Land held for development	3	0%
	84	100%

Oxford's office portfolio is diversified geographically in Canada across seven major markets. The largest concentration is in Toronto and the surrounding areas (representing approximately 56 per cent of the market value of the office portfolio) with investments in a number of properties, the most significant of which are BCE Place-Canada Trust Tower, Royal Bank Plaza, Metro Centre and the Richmond-Adelaide Centre. The other major urban centres are Calgary, Vancouver, Edmonton, Winnipeg, Ottawa and Montreal.

The retail portfolio comprises 13 properties, primarily super regional and regional shopping centres, totaling

13.9 million square feet. The properties are located across Canada and in the United States, but are predominantly in Toronto and the surrounding area. The more significant properties include 50 per cent ownership interests in Yorkdale Shopping Centre, Square One Shopping Centre, Scarborough Town Centre and the Oshawa Centre.

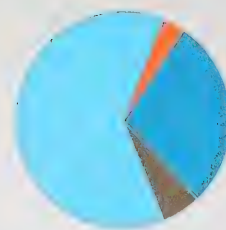
In 2006, Oxford began an initiative to seek new investment opportunities in the industrial and multifamily residential sectors with a view to building its portfolio in these areas. Historical and current data have demonstrated that these asset types can enhance the returns from real estate.

In addition, as part of Oxford's strategic and global investment plans, further efforts and investments are being made to increase the international component of our real estate investments to diversify and enhance returns. Through rigorous research, due diligence and strategic relationships, a pipeline of new investment activity has been identified and investment opportunities will continue to be assessed in 2007.

Oxford also holds and manages a portfolio of indirect investments that were valued at \$500 million at December 31, 2006, an increase of \$226 million from last year due primarily to new investments.

Pension Services

The Pension Division is the primary link between OMERS and its members and employers, and two-way communication is the key to our ability to consistently meet their needs.



Member Profile	
Active	236,900
Deferred	11,316
Retired/Survivor	101,120
Inactive	22,685
Total	372,021



(l-r) Jennifer Brown, Evelyn Funston,
Graham Hills, Wendy Forsythe

OMERS is widely recognized in the pension industry not only for having an excellent pension plan but also for the high standards of its member services.

The OMERS Primary Pension Plan provides members with:

- a guaranteed pension benefit, based on earnings and years of service (as described on page 18, Pension Plans)
- early retirement options
- a Canada Pension Plan "bridge" benefit if the member retires before age 65
- full inflation protection up to 6 per cent per year with inflation above that level available to be carried forward to subsequent years
- disability protection in the event a contributing member becomes disabled and is unable to work
- survivor benefits to protect a member's family when a member dies
- portability to continue to be an OMERS member with any of 906 OMERS employers across Ontario.

This requires a combination of innovative programs and processes and, in particular, highly skilled and dedicated people who appreciate the importance

of understanding the needs of our customers, and fulfilling them efficiently and promptly.

The mandate of the Pension Division, and OMERS overall, is to provide our members and employers first-in-class pension services. Our performance in 2006 confirms that the technology and staffing platforms we have built over the past several years are capable of meeting such a challenging objective.

In 2006, our results against our demanding service monitor standards were:

- Initial claims turnaround time – less than 2 business days on average compared with a target of 3 business days.
- Incoming calls resolved at first point of contact – 91.5 per cent of the time compared with a target of 90 per cent.
- Answer incoming calls to client services within 100 seconds – 73.9 per cent of the time compared with a target of 80 per cent.

The requirement to deliver outstanding service continues to grow:

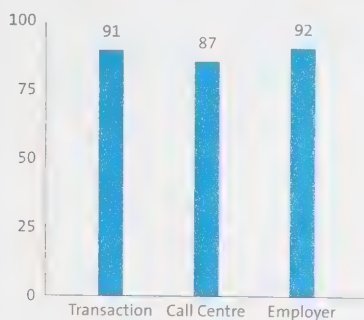
- As illustrated by the member profile above, we now serve a total member-

ship of over 372,000, 2.2 per cent more than at the end of 2005, and over 900 employers.

- In 2006, the pension promise was delivered through monthly Plan and RCA payments of \$1,492 million to retirees who numbered over 101,000 at the end of the year. Where individuals left the Plan and RCA, payments of \$252 million were also made in the form of commuted value payments and transfer payments to other pension plans.
- In 2006, we received requests for over 28,700 retirement, termination, disability, pre-retirement death benefits and retirement and termination estimates, an increase of 15 per cent over 2005.
- Communication is a critical element of our service. In 2006, our web site had 607,600 visits, an increase of 26 per cent over 2005. We also continued our practice of serving our members and building our relationship with employers through regular communication. We made 1,047 presentations at member information and pre-retirement sessions in 2006 and

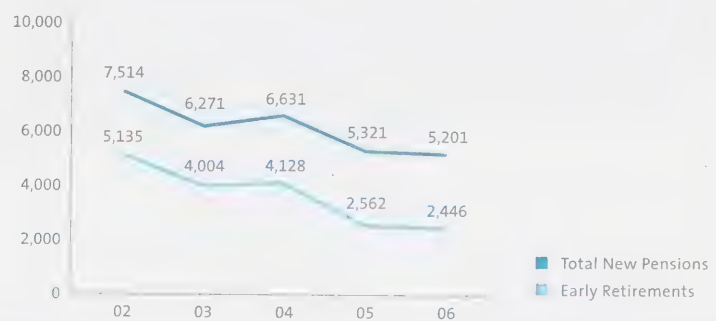
SATISFACTION SURVEYS

Percentage of respondents who rated OMERS 4 out of 5 or 5 out of 5 for service excellence



NUMBER OF NEW PENSIONS

(Unusually high numbers from 2002 to 2004 reflect temporary early retirement windows that were in effect during those years)



supported employers with regular written communication and on site visits where appropriate.

- 87 per cent of employers (covering 99 per cent of active members) are now registered for our e-access program, which enables employers to look up member information, check the status of an event or process a form over a secure on-line service.
- e-access continued to extend its reach in 2006. Over the course of the year, 87 per cent of key employer forms were received through e-access, compared with about 79 per cent in 2005 and about 70 per cent at the end of 2004. The most significant e-access application for both employers and OMERS is the e-119 application through which employers report annual member data to OMERS through our secure on line e-access system. 96 per cent of all annual pension statements were issued to members by June 30, 2006, which exceeded our target of 80 per cent in that time frame.

Not only do we serve many individual members on a timely basis but we are told that we are doing it well. We conduct an annual survey to assess how we are doing at meeting the needs of members and employers. The 2006 survey results showed an average satisfaction rate of 91 per cent for the overall level of service

which shows continuing recognition of our high standards.

Over the next year and a half our staff will be busy implementing the provisions of the OMERS Act, which includes the requirement for OMERS to implement a Supplemental Plan for members of the police sector, fire fighters and paramedics by July 1, 2008. The Sponsors Corporation can establish other Supplemental Plans for other members of the Plan. Supplemental Plans are separately funded stand alone pension plans which offer benefits in excess of what is available in the OMERS Primary Pension Plan.

Once the Supplemental Plan is finalized, members and employers may mutually agree to participate or participation may be locally bargained. Under the legislation, only one supplemental benefit may be provided at a time, at three-year intervals.

The benefits paid under the OMERS Primary Pension Plan, including the Canada Pension Plan bridge benefit (as discussed on page 18, Pension Plans), are calculated by multiplying two per cent of the member's average annual earnings for the highest paid five consecutive years, times years of credited service, to a maximum of 35 years. The benefits available under the Supplemental Plan for members of the police sector, fire fighters and paramedics may include:

- Increasing the benefit accrual from the current 2 per cent of the member's average annual earnings as noted above to 2.33 per cent.
- Calculating the pension based on the member's average annual earnings for the highest paid three consecutive years of service rather than the member's average annual earnings for the highest paid five consecutive years.
- Calculating the pension based on the member's average annual earnings for the highest paid four consecutive years of service rather than the member's average annual earnings for the highest paid five consecutive years.
- Enabling eligible members to retire with an unreduced pension where a member's age plus years of credited service equal 85 or more rather than the current 90 factor for eligible members with a normal retirement age of 65.
- Enabling eligible members to retire with an unreduced pension where the member's age plus years of credited service equal 80 or more rather than the current 85 factor for eligible members with a normal retirement age of 60.

We will continue to enhance our overall services, improving e-access tools, and strengthening our processes and communications.

Risk Management

OMERS is committed to providing secure pensions to its members by investing in a broad range of assets in a manner that earns superior returns without taking undue risk. Our goal is to ensure that the value of the investment portfolio is sufficient to meet the value of all pension benefits (the "liabilities") promised to members of the Plan on a sustained basis.

The ability of OMERS to meet this obligation is affected by two factors:

- fluctuations in the value of the investment portfolio, which are driven by changes in investment markets (primarily market and credit risk), and
- changes in the value of the Plan's actuarial liabilities, which are driven by both economic and demographic factors.

Our approach to risk management is enterprise-wide and involves our Board, management and professional staff within each line of business. Risk management is an essential part of our corporate and investment strategy. It assists us in generating the investment returns we need to keep the pension promise without incurring substantial risk of loss. In addition, OMERS staff are required to adhere to policies, procedures and standards that a prudent person would reasonably exercise when managing the assets of others. Risk management is supported by our Code of Ethics and Professional Conduct and Conflict of Interest policies and our system of internal controls and procedures. During 2007 we will continue to strengthen our risk management activities throughout the organization.

OMERS follows a policy of asset diversification for its investments. The purpose of such diversification is to have different segments of the investment portfolio exposed to different investment risks. This reduces the overall volatility of returns and helps insulate the investment portfolio from the negative impact of adverse returns in any one asset class, industry or region.

Our primary longer-term focus is continuing to meet the pension promise. To manage this risk, OMERS reviews and adjusts its asset mix periodically so that the expected long-term investment returns are sufficient to meet the Plan's liabilities. Our goal is to manage an asset mix that balances risks and rewards, avoids excessive volatility in the investment portfolio and is appropriate for the size and duration of the Plan's liabilities. The target weight of each asset class, as a proportion of the total portfolio, and the associated allowable ranges, are approved by the Board and reviewed on an ongoing basis by management.

The Plan's actuarial liabilities behave largely like a mix of real return and nominal bonds. Due to the diversification principles noted above and the need to maintain reasonable contribution rates, OMERS invests in a combination of equities, infrastructure, real estate and a broad range of actively managed interest bearing instruments. As a result there is a mismatch between the characteristics of the actuarial liabilities and the characteristics of the assets, which expose the Plan to various risks that must be closely monitored and managed.

RISKS AFFECTING THE PLAN

There are five main facets to the risks faced by OMERS that could potentially have an adverse effect on the Plan.

- First, there are investment risks (market and credit) that are an inherent part of investing in capital markets.
- Second, there is an array of operational risks that OMERS faces as a business operation.
- Third, the Plan faces actuarial assumption risks which may impact the actuarial liability and contribution rates.
- Fourth, there are strategic risks inherent in the execution of our longer-term plan.
- And finally, there are legal, regulatory and reputational risks that OMERS deals with in the management of the Plan and the RCA and as part of the administration of such plans under the laws of Canada.

Investment Risk

OMERS manages a variety of investment risks associated with investing in capital markets including market and credit risk.

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk is a term which encompasses a variety of financial risks, such as interest rate risk, commodities risk, equity risk and foreign exchange risk. Significant volatility in interest rates, commodity prices, equity values and the value of the Canadian dollar against the currencies in which our investments are held can significantly impact the value of our investments and the actuarial surplus or deficit of the Plan.

OMERS has policies requiring the use of various investment strategies such as diversification, hedging and the use of derivative instruments, to mitigate the various forms of market risk. Our exposure and investment positions are monitored on a daily basis.

Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty to fully honour its contractual obligations including the inability or unwillingness to pay the principal borrowed, or to make interest payments when they come due. More generally, credit risk can also lead to losses when debtors are downgraded by credit agencies, usually leading to a fall in the market value of their obligations.

OMERS has developed policies which are designed to manage credit risk by establishing limits to credit exposure from individual corporate entities and requiring collateral where appropriate.

Operational Risk

Operational risk is the risk of financial loss arising either directly or indirectly from operational error due to failure in processes, systems, technology, actions of personnel or due to unforeseen external events. The framework of policies and procedures at OMERS is designed to identify and manage operational risks through the implementation of controls for data integrity, information processing, management of information technology and appropriate human resources, systems and practices.

Actuarial Assumption Risk

OMERS ability to pay pensions is also subject to the risks associated with the assumptions used in the valuation of the Plan's actuarial liabilities. There are two sources of this risk: (1) the risk that the actual market conditions differ significantly from the parameters used in the valuation of the liabilities and (2) unforeseen changes in the major parameters. The major parameters that go into the valuation of the actuarial liability include assumptions about long-term economic conditions such as inflation, the real return on investments and the rate of member salary increases and assumptions about demographics of the membership such as mortality rates, disability rates, and the rates for terminations, early retirement and marital status.

In order to manage these risks, the Board appoints an independent actuary to annually value the actuarial liability based on economic and demographic assumptions as recommended by the actuary, reviewed by management and approved by the Board. The validity of all assumptions are monitored each year against actual experience and adjusted as appropriate.

Strategic Risk

Strategic risk is the risk of not achieving OMERS long-term strategic goals and objectives. The Board and the CEO assist in the achievement of OMERS strategic goals by overseeing OMERS policies and the planning and achievement of OMERS long-term goals. The CEO is accountable to the Board for decisions relating to all areas of OMERS management including funding policy, investment strategies, investments pursued, investment management styles and operating results. To manage this risk, OMERS has established a governance framework, business strategy process and performance measures.

Legal, Regulatory and Reputation Risk

Legal, regulatory and reputation risk arises from unanticipated changes in or non-compliance with legal and/or regulatory requirements and/or other ethical standards which can undermine OMERS ability to accomplish its objectives. The Board and management with the assistance of the Legal Division and independent expert advisors monitor situations affecting regulatory compliance and situations that could result in regulatory action. We have established processes to keep abreast of regulatory developments applicable to OMERS.

The Board and management also monitor events that could affect stakeholder or public perceptions of OMERS. In addition, management also monitors the perception of OMERS by conducting regular research of member satisfaction and public perception of issues which could impact OMERS.

Through our governance framework, and established policies and procedures including our Code of Ethics and Professional Conduct and Conflict of Interest policies for directors and employees, we strive to ensure that values and behavioural expectations are well understood and integrated throughout the organization so as to minimize such risks.

Critical Accounting Policies

OMERS has established procedures to ensure that accounting policies are in accordance with Canadian generally accepted accounting principles ("GAAP"), are applied consistently and that our processes for changing accounting policies are systematic and well controlled.

Consistent with Canadian GAAP, certain of OMERS accounting policies require subjective or complex judgments and estimates relating to matters that are inherently uncertain. The use of different judgments and estimates could result in materially different amounts being recorded under different conditions or by using different assumptions. As a result, actual results could materially differ from our estimates and assumptions recorded in the consolidated financial statements. Significant estimates included in the consolidated financial statements relate to the valuation of certain investments and the determination of the actuarial liabilities.

OMERS policy is to record all investments at fair value; however, the determination of fair value involves considering many factors for each type of investment held by the Plan. Fair value is determined with reference to quoted market prices, where available. For private market investments where quoted market prices are not available, fair value is generally based on internal or external valuations using generally accepted valuation methods. For private equity funds the fair value may be provided by the fund's general partner. As a result fair values for private market investments are based on estimates which are inherently uncertain. OMERS policy is to obtain independent support of these valuations by accredited independent appraisers at least once every three years or whenever the valuation changes by more than 15 per cent from the prior year.

Actuarial assumptions used in determining actuarial liabilities reflect management's best estimates of future economic factors such as the discount rate, rate of pensionable earnings increase and inflation, and non-economic factors such as mortality, withdrawal and retirement rates of Plan members. This process is supported by our independent actuary. The Plan's actual experience could differ from these estimates and the differences are recognized as experience gains or losses in future years.

A summary of the OMERS significant accounting policies is presented in Note 2 to the Consolidated Financial Statements beginning on page 45 of this Annual Report.

OMERS Chief Executive Officer

On February 1, 2007, the Board of Directors of OMERS announced that Paul Haggis, President and Chief Executive Officer of OMERS would be leaving OMERS later in 2007. The decision was a mutual agreement between the Board and Mr. Haggis reflecting the future needs and focus of OMERS. Subsequently, on February 28, 2007, the Board of Directors announced the appointment of Michael Nobrega, formerly President and Chief Executive Officer of Borealis Capital Corporation (OMERS infrastructure entity), as the new President and Chief Executive Officer effective March 12, 2007. The change in President and Chief Executive Officer should not have a material impact on OMERS day to day operations.

Actuarial Opinion

as at December 31, 2006

The most recent actuarial valuation of the registered pension plan benefits of the primary pension plan (the "OMERS Primary Pension Plan" or the "Plan") administered by OMERS Administration Corporation was conducted as at December 31, 2006 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purpose of the valuation was to fairly present the funded status of the Plan as at December 31, 2006, for inclusion in this Annual Report in accordance with Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

The results of the actuarial valuation of the Plan disclosed total going concern actuarial liabilities of \$44,167 million in respect of benefits accrued for service to December 31, 2006. The actuarial assets at that date were \$41,785 million indicating a going concern actuarial deficit of \$2,382 million. Ongoing adequacy of the current contribution rates will need to be monitored to ensure that future contributions, together with the Plan assets and future investment earnings thereon, will be sufficient to provide for all future benefits.

Full earnings pension benefits are benefits provided, using a Retirement Compensation Arrangement ("RCA"), in excess of the maximum pension benefits under the Plan and are not fully pre-funded. The actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2006 (determined using assumptions consistent with those used for the Plan except that the discount rate is adjusted to approximate the effect of the 50% refundable tax under the RCA), net of the RCA assets, was \$143 million. Contributions, based on the top-tier Plan contribution rates, are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Plan. It is expected that if contributions to the RCA continue, the annual cash inflow will be more than sufficient to cover the annual benefit payments for the foreseeable future.

The actuarial valuation of the Plan and the RCA as at December 31, 2006 was conducted using membership data as at December 31, 2005 and financial information as at December 31, 2006 supplied by OMERS Administration Corporation. The December 31, 2005 membership was adjusted for the following:

- membership movements to December 3, 2006,
- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2007, and
- the estimated increase in earnings for 2006.

We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purpose of the valuation;
- the assumptions adopted are, in aggregate, appropriate for the purpose of the valuation; and
- the methods employed in the valuation are appropriate for the purpose of the valuation.


Nonetheless, the future experience of the Plan and the RCA may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

The valuation was prepared and our opinions are given in accordance with accepted actuarial practice.

Respectfully submitted
WATSON WYATT CANADA ULC



Ian Markham
Fellow, Canadian Institute of Actuaries
February 23, 2007



Andrew K. Fung, F.S.A.
Fellow, Canadian Institute of Actuaries

Responsibilities of Management, the Actuary and External Auditors

OMERS Administration Corporation ("OMERS") is the administrator of the primary pension plan as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Primary Pension Plan" or the "Plan") and the Retirement Compensation Arrangement ("RCA") associated with the Plan. The consolidated financial statements of OMERS Administration Corporation have been prepared by management of OMERS, and approved by the Board of OMERS Administration Corporation (the "Board"). Management is responsible for the contents of the consolidated financial statements and the financial information contained within the Annual Report.

Management maintains systems of internal control and supporting procedures that are designed to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees. In addition, Internal Audit which reports directly to the Audit Committee of the Board, reviews OMERS systems of internal control to determine whether these controls are appropriate and operating effectively.

The Board is responsible for approving the annual consolidated financial statements. The Audit Committee, which is comprised of directors who are not officers or employees of OMERS, assists the Board in executing this responsibility. The Audit Committee meets regularly with management and the internal and external auditors to review the scope and timing of their respective audits as well as to review any internal control or financial reporting issues and their resolution. The Audit Committee reviews the annual consolidated financial statements and recommends them to the Board for approval.

The actuary is appointed by the Board. It is the actuary's responsibility to carry out annual valuations of the actuarial liabilities of the Plan and RCA in accordance with accepted actuarial practice and to report thereon to the Board. The results of the actuary's valuation are set out in the Actuarial Opinion on page 39 of this Annual Report. In performing the valuation, the actuary values the benefits provided under the Plan and the RCA using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality, turnover rates and retirement ages). These assumptions take into account the circumstances of OMERS and its active, former and retired members.

The external auditors are also appointed by the Board. Their responsibility is to report to the Board whether the consolidated financial statements present fairly, in all material respects, the net assets, actuarial liabilities and deficit of actuarial value of net assets over actuarial liabilities of OMERS and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings arising from their audit related to the integrity of financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors use the work of the actuary for the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has provided the Actuarial Opinion. The auditors' report outlines the scope of their examination and their opinion.

Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the Annual Report.

Based on my knowledge, the annual financial statements, together with the other financial information included in the Annual Report, fairly present in all material respects the net assets, changes in net assets and deficit of actuarial value of net assets over actuarial liabilities of OMERS Administration Corporation as of the date and for the periods presented in the Annual Report.



Paul G. Haggis
President and Chief Executive Officer
Toronto, Canada
February 23, 2007



Patrick G. Crowley
Chief Financial Officer

Auditors' Report

To the Board of OMERS Administration Corporation

We have audited the consolidated statement of net assets and the consolidated statement of application of net assets to actuarial liabilities and deficit of OMERS Administration Corporation as at December 31, 2006 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of OMERS Administration Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly in all material respects, the net assets and deficit of actuarial value of net assets over actuarial liabilities of OMERS Administration Corporation as at December 31, 2006 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.

PricewaterhouseCoopers LLP

Chartered Accountants, Licensed Public Accountants

Toronto, Canada

February 23, 2007

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF NET ASSETS

(Millions)

As at December 31,

	2006	2005
Assets		
Investments (note 3)	\$ 60,610	\$ 51,628
Amounts due from pending trades	138	258
Other assets (note 5)	724	663
Total Assets	61,472	52,549
Liabilities		
Investment liabilities (note 6)	12,725	10,642
Due to administered funds	741	639
Amounts payable from pending trades	363	130
Other liabilities	38	73
Total Liabilities	13,867	11,484
Net Assets	\$ 47,605	\$ 41,065

Guarantees, commitments and contingencies are discussed in note 15.

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Signed on Behalf of the Board
of OMERS Administration Corporation

Member

Member

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(Millions)

For the year ended December 31,

	2006	2005
Changes Due to Investment Activities		
Net investment income (note 9)	\$ 6,530	\$ 5,515
Changes Due to Pension Activities		
Contributions (note 11)	1,792	1,534
Benefits (note 12)	(1,744)	(1,603)
Pension administrative expenses (note 13(a))	(38)	(36)
	10	(105)
Total Increase	6,540	5,410
Net assets, beginning of year	41,065	35,655
Net Assets, End of Year	\$ 47,605	\$ 41,065

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF APPLICATION OF NET ASSETS TO ACTUARIAL LIABILITIES AND DEFICIT

(Millions)

As at December 31,

	2006	2005
OMERS Primary Pension Plan (note 7)		
Actuarial liabilities	\$ 44,167	\$ 41,123
Actuarial value adjustment of net assets	5,791	2,707
Deficit	(2,382)	(2,784)
Net Assets in OMERS Primary Pension Plan	47,576	41,046
Retirement Compensation Arrangement (note 8)		
Actuarial liabilities	172	157
Deficit	(143)	(138)
Net Assets in Retirement Compensation Arrangement	29	19
Net Assets	\$ 47,605	\$ 41,065

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Notes to Consolidated Financial Statements

NOTE 1 – DESCRIPTION OF PLANS ADMINISTERED BY OMERS ADMINISTRATION CORPORATION

Effective June 30, 2006, the Ontario Municipal Employees Retirement Board was continued as a corporation without share capital under the name OMERS Administration Corporation ("OMERS"), pursuant to the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act"). OMERS is the administrator of the primary pension plan as defined in the OMERS Act (the "OMERS Primary Pension Plan" or the "Plan") and the Retirement Compensation Arrangement ("RCA") associated with the Plan. OMERS is responsible for investing the pension funds, as defined in the OMERS Act, in accordance with the *Pension Benefits Act (Ontario)* (the "PBA"), the *Income Tax Act (Canada)* (the "Income Tax Act"), and the OMERS Act. In addition, the OMERS Sponsors Corporation replaces the Province of Ontario as sponsor of the Plan and the RCA described below.

OMERS Primary Pension Plan

The OMERS Primary Pension Plan is a multi-employer pension plan, created in 1962 by an Act of the Ontario Legislature, whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. Prior to June 30, 2006, the Plan was governed by the *Ontario Municipal Employees Retirement System Act* and *OMERS Regulation 890*, as amended from time to time. Effective June 30, 2006, the Plan is governed by the OMERS Act and the benefit provisions and other terms of the Plan are set out in the plan text.

The OMERS Primary Pension Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency. The Plan is registered under Registration #0345983.

- a) **Funding** – The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and members and by the investment earnings of the Plan assets. Contributions are determined in accordance with the OMERS Act, the Income Tax Act and the PBA, according to the actuarial needs of the Plan.
- b) **Pensions** – The normal retirement age ("NRA") is 65 years for all Plan members except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty consecutive months of earnings. The Plan is integrated with the Canada Pension Plan.
- c) **Death Benefits** – Death benefits are available to a surviving spouse, eligible dependent children or designated beneficiary upon the death of a member or in some cases a pensioner. Depending upon eligibility requirements, the benefits may be paid in the form of a survivor pension, lump sum payment or both.
- d) **Withdrawals from the Plan** – Subject to lock-in provisions, a member that has terminated employment prior to eligibility to retire has the option to withdraw his/her benefits from the Plan.
- e) **Escalation of Pensions** – Pensions benefits are protected from inflation through an annual adjustment equal to 100 per cent of the Consumer Price Index (CPI) of the prior year. This is subject to a limit of six per cent in any one year. If the CPI exceeds the six per cent limit, any excess is carried forward to future years.
- f) **Disability Pensions** – A disability pension is available at any age to a member who becomes totally disabled as defined by the Plan. The pension is calculated using a member's years of credited service and the average annual earnings during the member's highest sixty months of consecutive earnings consistent with a standard pension. Disability pensions continue until normal retirement or until the member is able to return to work.
- g) **Income Taxes** – The Plan is a Registered Pension Plan as defined in the Income Tax Act and as such is not subject to income taxes for contributions or investment income received. The operations of certain entities holding private equity, infrastructure or real estate investments may be taxable.

Retirement Compensation Arrangement

The RCA was established to provide pension benefits based on full earnings for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. The determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The net assets available for benefits and the accrued liabilities of the RCA are valued separately from the Plan actuarial valuation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared on a going concern basis in accordance with Canadian generally accepted accounting principles and present the information of the OMERS Administration Corporation as a separate financial reporting entity independent of the employers and plan members.

Certain comparative figures have been restated to conform to the current year's presentation.

Consolidation

The consolidated financial statements include the assets, liabilities and operating results for all investment entities where OMERS has effective control for accounting purposes, and for variable interest entities where OMERS is the primary beneficiary. For investment entities where OMERS has joint ownership and control for accounting purposes, a proportionate share of the fair value of assets, liabilities and operating results is included in the consolidated financial statements. Entities over which OMERS has significant influence are accounted for using the equity basis of accounting, stated at fair value.

Inter-company transactions and balances are eliminated in arriving at the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, actuarial liabilities and related disclosures. Actual results could differ from these estimates. Significant estimates included in the consolidated financial statements relate to the valuation of private market investments and the determination of the actuarial liabilities.

Investments

All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date.

Investments are stated at fair value. Fair value represents the consideration that would be agreed upon between knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted closing market price, if one exists. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Where a public market price is not available for an investment asset or liability, a suitable method of valuation is used annually by management to determine fair value using appropriate valuation techniques, including the use of discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models as appropriate. Accredited external appraisers are required to perform a review of management's valuations to determine the reasonableness of the valuations for each significant private market investment at least once every three years or in any year where the valuation changes by more than fifteen per cent from the prior year.

The difference between the value of an asset or liability at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. Unrealized appreciation/depreciation in the fair value of investments is the change in fair value adjusted for cash flows during the year and is reflected in net investment income/loss in the consolidated statement of changes in net assets.

Fair values of investments are determined as follows:

- i) Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.
- ii) Bonds and debentures, real return bonds and public equities are valued at year-end quoted market prices, where available. For these instruments and for mortgages and private debt where quoted market prices are not available, estimated values are calculated using discounted cash flows based on current market yields for comparable securities, independent asset appraisals, and financial analysis.
- iii) Private markets investments include investments in private equity, infrastructure and real estate assets either held directly or as a limited partner. For private market investments, the completion of a purchase or sale of an identical or similar investment is often the most objective determination of fair value. Other third party events are also considered in the valuation. While not exact, appraisal or valuation procedures are able to provide estimates or identify likely ranges that a reasonable arms length third party would pay for such assets. OMERS private markets investments are valued as follows:
 - The fair value of investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values is equal to the appraised amount;
 - The fair value of non-operating and/or start-up directly held private markets investments is equal to cost until there is a specific and objectively verifiable reason to change the value, supported by an appraisal;
 - The fair value of private markets investments acquired within the current fiscal year is equal to cost, unless there is a specific and objectively verifiable reason to change the value, supported by an appraisal;
 - The fair value of a private fund investment where OMERS ability to access information on underlying individual fund investments is restricted, such as under the terms of a limited partnership agreement, is equal to the value provided by the fund's General Partner unless there is a specific and objectively verifiable reason to change the value.
- iv) Derivatives, including swap, futures, option and forward contracts, are recorded at fair value with unrealized gains and losses included in net investment income. Fair values are determined using quoted market prices, where available, or discounted cash flows using current market yields, where quoted market prices are not available.

Investment Income/Loss

Investment income/loss includes interest, dividends, operating income/loss from consolidated and equity accounted investment entities recorded on the accrual basis, gains and losses that have been realized on disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Where OMERS is able to exercise significant influence over the operations of a private market investment, net income is recognized using the equity method and the investment is adjusted to its fair value. For private investments where OMERS is not able to exercise control or significant influence, income is recognized, as dividends or distributions are declared and the investment is adjusted to its fair value.

Investment Liabilities

Investment liabilities include debentures, mortgages and other debt obligations, primarily related to investments in real estate and infrastructure. Investment liabilities also include OMERS liability to return cash collateral received in securities lending transactions. The fair value of investment liabilities is estimated using discounted cash flows based on current market yields, except for items that are short-term in nature, which are carried at their cost amount.

Amounts Due/Payable from Pending Trades

For securities transactions, the fair value of amounts due from pending trades and amounts payable from pending trades approximate their carrying amounts due to their short-term nature. For derivative contracts, unrealized gains and losses are included in amounts due/payable from pending trades.

Foreign Currency Translation

Certain OMERS investments are denominated in foreign currencies. The fair values of such investments are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the settlement is recognized in realized gains/losses on disposal of investments.

Due to Administered Funds

Under contractual agreements and with the approval of the Government of Ontario, OMERS invests funds on behalf of The Board of Trustees of Ryerson University, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor Fund. OMERS is authorized under the terms of the various agreements to recover its expenses for administering such funds.

The amount due to administered funds is credited with income based upon their proportionate interest in OMERS investment income and the balance reflects the administered funds' proportionate interest in the fair value of OMERS investments.

Accrued Pension Benefits

The value of accrued pension benefits of the Plan is based on a projected accrued benefits method (pro-rated on service) actuarial valuation prepared by an independent firm of actuaries. This obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by OMERS for the purpose of establishing the long-term funding requirements of the Plan. The actuarial valuation included in the consolidated financial statements is consistent with the valuation for funding purposes.

The valuation methodology used in the estimation of the accrued pension benefits of the RCA is developed on a basis consistent with the Plan.

Actuarial Value of Net Assets and Actuarial Value Adjustment

The actuarial value of net assets for the Plan has been determined by amortizing returns above or below the actuarial long-term rate of return assumption over a five-year period. The fair value of net assets is adjusted by the unamortized actuarial value adjustment to arrive at the actuarial value of net assets.

Contributions

Contributions from employers and members due to the Plan and the RCA as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence, conversion of normal retirement age and contract adjustments and transfers from other pension plans are recorded when the purchase amount is received.

Benefits

Benefit payments to retired members are recorded as they are due at the first of each month. Commuted value payments and transfers to other pension plans are recorded in the period in which they are paid. Accrued benefits for active members are recorded as part of accrued actuarial liabilities.

NOTE 3 – INVESTMENTS

Investments, before allocating the effect of derivative contracts and investment related assets and liabilities are as follows:

(Millions)	2006		2005	
	Fair Value	Cost	Fair Value	Cost
Public Market Investments				
Interest Bearing Investments				
Cash and short-term deposits (i)	\$ 11,352	\$ 11,352	\$ 11,696	\$ 11,696
Bonds and debentures (ii)	6,446	6,281	6,417	6,225
Real return bonds	1,969	1,685	1,660	1,265
Mortgages and private debt (iii)	1,364	1,305	1,569	1,494
	21,131	20,623	21,342	20,680
Public Equity				
Canadian public equities	9,518	6,127	8,466	5,471
Non-Canadian public equities	12,924	9,978	9,530	8,312
	22,442	16,105	17,996	13,783
Total Public Market Investments	43,573	36,728	39,338	34,463
Private Equity				
Canadian private equities (iv)	1,320	1,093	1,143	982
Non-Canadian private equities	1,591	1,645	1,248	1,272
	2,911	2,738	2,391	2,254
Infrastructure Investments	5,585	5,110	3,719	3,475
Real Estate Investments	8,541	7,597	6,180	5,920
Total Investments	60,610	52,173	51,628	46,112
Investment Related Assets				
Amounts due from pending trades	138	59	258	47
Other investment assets (note 5)	561	561	507	491
	699	620	765	538
Investment Related Liabilities				
Investment liabilities (note 6)	(12,725)	(12,536)	(10,642)	(10,462)
Amounts payable from pending trades	(363)	(66)	(130)	(50)
	(13,088)	(12,602)	(10,772)	(10,512)
Net Investment Assets	\$ 48,221	\$ 40,191	\$ 41,621	\$ 36,138

- i) Includes restricted cash of \$119 million (2005 – \$70 million).
- ii) Includes non-Canadian bonds and debentures with a fair value of \$142 million (2005 – \$194 million).
- iii) Includes mortgages with a fair value of \$919 million (2005 – \$1,072 million).
- iv) Includes resource properties with a fair value of \$217 million (2005 – \$271 million).

OMERS participates in a securities lending program where it lends securities that it owns to third parties. For securities lent, OMERS receives a fee and holds cash or securities of higher value as collateral. As at December 31, 2006, securities with an estimated fair value of \$8,061 million (2005 – \$6,589 million) were loaned out, while collateral held had an estimated fair value of \$8,313 million (2005 – \$6,787 million) of which \$7,153 million (2005 – \$6,344 million) was cash collateral invested in short-term interest bearing investments.

At December 31, OMERS held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets:

(Millions)	2006			2005		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Public market investments	5	\$ 2,427	\$ 1,768	2	\$ 849	\$ 694
Private market investments	7	5,447	4,697	4	2,928	2,355
	12	\$ 7,874	\$ 6,465	6	\$ 3,777	\$ 3,049

Public market investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include two interest bearing securities issued by the Government of Canada and equity securities of Manulife Financial Corporation, Royal Bank of Canada and Toronto Dominion Bank. Private market investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include a limited partnership interest in Bruce Power, a Royal Bank of Canada structured note, an ownership interest in the Scotia Gas Networks PLC, an ownership interest in Associated British Ports PLC, and real estate ownership interests in Yorkdale Shopping Centre located in Ontario and the Fairmont Banff Springs and the Fairmont Chateau Lake Louise hotels both located in Alberta.

OMERS net investment assets by major asset class are as follows:

(Millions) As at December 31, 2006	Public Markets					
	Interest Bearing	Public Equity	Private Equity	Infra-structure	Real Estate	Total
Investment assets	\$ 21,131	\$ 22,442	\$ 2,911	\$ 5,585	\$ 8,541	\$ 60,610
Allocation of cash and other	(4,159)	3,803	11	107	238	-
Investment related assets	78	165	98	258	100	699
Investment related liabilities	(7,161)	(371)	(136)	(2,115)	(3,305)	(13,088)
Net investment assets	\$ 9,889	\$ 26,039	\$ 2,884	\$ 3,835	\$ 5,574	\$ 48,221

(Millions) As at December 31, 2005	Public Markets					
	Interest Bearing	Public Equity	Private Equity	Infra-structure	Real Estate	Total
Investment assets	\$ 21,342	\$ 17,996	\$ 2,391	\$ 3,719	\$ 6,180	\$ 51,628
Allocation of cash and other	(4,709)	4,230	69	240	170	-
Investment related assets	81	280	103	203	98	765
Investment related liabilities	(6,354)	(129)	(51)	(1,772)	(2,466)	(10,772)
Net investment assets	\$ 10,360	\$ 22,377	\$ 2,512	\$ 2,390	\$ 3,982	\$ 41,621

Investment Risk Management

Risk management relates to the understanding and active management of risks associated with all areas of the business and the associated operating environment. Investments are primarily exposed to foreign currency, interest rate, market and credit risk. OMERS has formal policies and procedures that establish a target asset mix among interest bearing, public equity, private equity, infrastructure and real estate investments. OMERS policies also require diversification of investments within categories, and set limits on the exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 4).

Foreign Currency Risk

Foreign currency exposure arises from OMERS holding investments and entering into derivative contracts that provide exposure to currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. OMERS has a currency overlay program under which a portion of its foreign currency exposure is hedged through the use of foreign exchange forward contracts. OMERS also takes active trading positions in foreign currencies with the objective of adding value. OMERS total currency exposure, impact of the currency overlay program (hedging and trading) and the net currency exposure as at December 31 are as follows:

(Millions Cdn dollar equivalent)	2006 Fair Value				2005 Fair Value			
	Total Exposure	Currency Overlay		Net Exposure	Total Exposure	Currency Overlay		Net Exposure
		Hedging	Trading			Hedging	Trading	
Canada	\$ 29,426	\$ 11,020	\$ (80)	\$ 40,366	\$ 25,833	\$ 9,054	\$ 148	\$ 35,035
United States	9,034	(5,204)	(589)	3,241	7,953	(4,936)	(200)	2,817
Euro Countries	2,924	(1,706)	(97)	1,121	2,423	(1,246)	(179)	998
United Kingdom	2,765	(2,308)	22	479	1,650	(1,199)	2	453
Japan	1,360	(728)	620	1,252	1,569	(761)	119	927
Other Pacific	1,033	(462)	5	576	889	(367)	(6)	516
Emerging Markets	855	(76)	71	850	642	(74)	82	650
Other Europe	824	(536)	48	336	662	(471)	34	225
	\$ 48,221	\$ -	\$ -	\$ 48,221	\$ 41,621	\$ -	\$ -	\$ 41,621

Interest Rate Risk

Interest rate risk refers to the effect on the market value of OMERS assets and liabilities due to fluctuations in interest rates. Due to the indexing of benefit entitlements and the relatively long-term nature of pension benefits (note 7 and 8), liabilities are influenced by inflation and long-term rates of return, while, asset values are mostly affected by equity markets and short-term changes in interest rates. The interest bearing investment portfolio has guidelines on concentration, duration and distribution, which are designed to mitigate the risk of interest rate volatility.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of the securities, are as follows:

(Millions)	2006					2005	
	Term to Maturity				Average Effective Yield (i)	Total	Average Effective Yield (i)
	Within 1 Year	1 to 5 Years	Over 5 Years	Total			
Cash and short-term deposits	\$ 11,352	\$ -	\$ -	\$ 11,352	4.28%	\$ 11,696	3.30%
Bonds and debentures	568	2,187	3,691	6,446	4.28%	6,417	4.06%
Real return bonds (ii)	-	-	1,969	1,969	1.81%	1,660	1.46%
Mortgages and private debt	110	563	691	1,364	5.36%	1,569	5.22%
	\$ 12,030	\$ 2,750	\$ 6,351	\$ 21,131	4.12%	\$ 21,342	3.53%

- i) Average effective yield represents the weighted average rate required to discount future contractual cash flows to current market value.
- ii) Real return bond yields based on real interest rates. The ultimate yield will be impacted by inflation as it occurs.

After giving effect to the derivative contracts and investment related assets and liabilities, a one per cent increase/decrease in nominal interest rates would result in an approximate decrease/increase in the value of interest bearing investments of 8.1 per cent (2005 – 6.2 per cent). Similarly, a one per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of the real-return bonds of 21.7 per cent (2005 – 24.0 per cent).

Bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt of \$1,035 million (2005 – \$2,004 million) makes up 12.3 per cent (2005 – 24.8 per cent) of the fair market value of bonds and debentures (including real return bonds).

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. To mitigate the impact of market risk, OMERS invests in a diversified portfolio of investments, based on Board approved policies, and utilizes derivative financial instruments.

Credit Risk

OMERS is exposed to credit-related risk in the event a security counterparty defaults or becomes insolvent. OMERS has established investment criteria, which are designed to manage credit risk by establishing limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 4.

NOTE 4 – DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices. Derivatives transactions are conducted in the over-the-counter market directly between two counterparties or on regulated exchange markets.

OMERS uses derivative financial instruments, when appropriate, to manage its asset mix and to assist in the management of exposure to financial risks, including interest rate, foreign exchange and market risks, without directly purchasing or selling the underlying assets or currencies. In certain circumstances, derivatives are also used to increase returns or to replicate investments synthetically.

Types of contracts currently entered into by OMERS include:

Interest Rate Swaps

Interest rate swaps involve contractual agreements between two counterparties to exchange fixed and floating interest payments based on notional amounts.

Bond and Equity Swaps

Bond and equity swaps involve contractual agreements between two counterparties to exchange a series of cash flows based on changes in value of a bond or equity instrument, a basket of instruments or an index.

Bond and Equity Options

Bond and equity options are contractual agreements where the seller (writer) gives the right but not the obligation to a counterparty to buy (call option) or sell (put option) a specified quantity of a financial instrument on or before a specified future date at a predetermined price. The financial instruments may include a basket of bonds or equities, a bond or equity index or a single issue bond or equity instrument. The seller receives a premium from the counterparty for this right. Options may be exchange traded or transacted in the over-the-counter market.

Bond Forward Contracts

Bond forward contracts are contractual agreements to buy or sell an individual bond, a basket of bonds or a bond index at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Equity Index Futures Contracts

Futures contracts are agreements to either buy or sell specified equity indices at a specified price and date in the future. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash settlement of changes in fair value.

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future. OMERS uses foreign exchange forward contracts to provide exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading.

OMERS is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, OMERS:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- arranges credit risk mitigation in the form of periodic prepayments of the fair value of contracts.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed completely to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the receivable replacement cost of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following summarizes OMERS derivative portfolio and related credit exposure:

(Millions)	2006			2005		
	Notional Value (i)	Fair Value (ii)		Notional Value (i)	Fair Value (ii)	
		Assets (iii)	Liabilities		Assets (iii)	Liabilities
Interest Rate Contracts						
Interest rate swap contracts	\$ 404	\$ 16	\$ (3)	\$ 984	\$ 19	\$ (11)
Bond index swap contracts	421	—	(3)	477	4	—
Bond options purchased (iv)	99	1	—	—	—	—
	924	17	(6)	1,461	23	(11)
Equity Contracts						
Equity index futures contracts	3,852	—	(10)	4,834	—	(32)
Equity index swap contracts	609	28	—	1,127	44	—
Equity swap contracts	—	—	—	19	9	—
Equity options written (v)	25	—	(1)	68	—	(2)
	4,486	28	(11)	6,048	53	(34)
Foreign Exchange Forward Contracts	11,977	35	(281)	12,123	135	(38)
Total	\$ 17,387	\$ 80	\$ (298)	\$ 19,632	\$ 211	\$ (83)

- Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the consolidated financial statements.
- Fair value represents unrealized gains or losses from derivative contracts which are recorded in the consolidated statement of net assets based on the fair value of the derivative contract. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.
- The fair value of derivative assets represent the credit risk replacement cost or the loss to which OMERS is exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts that permit offsetting of positions or any collateral which may be held.
- The premium paid on bond options purchased is \$1 million (2005 – \$nil).
- The premium received on equity options written is \$1 million (2005 – \$3 million).

The term to maturity based on notional value is as follows:

(Millions)	2006				2005			
	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total
Under 1 year	\$ 573	\$ 4,486	\$ 11,977	\$ 17,036	\$ 1,067	\$ 6,048	\$ 12,123	\$ 19,238
1 to 5 years	284	–	–	284	327	–	–	327
Over 5 years	67	–	–	67	67	–	–	67
	\$ 924	\$ 4,486	\$ 11,977	\$ 17,387	\$ 1,461	\$ 6,048	\$ 12,123	\$ 19,632

NOTE 5 – OTHER ASSETS

Other assets are comprised of operational accounts receivable, accrued income and other assets related to private equity, infrastructure and real estate, and contributions and other non-investment receivables.

(Millions)	2006	2005
Investment receivables	\$ 456	\$ 360
Deferred assets, prepaids and other	105	147
Other investment assets	561	507
Contributions receivable	146	143
Other non-investment assets	17	13
	\$ 724	\$ 663

NOTE 6 – INVESTMENT LIABILITIES

(Millions)	2006	2005
Long-term debt (a)	\$ 4,591	\$ 3,562
Payable under securities lending program (b)	7,153	6,344
Deferred revenue	106	100
Payables	875	636
	\$ 12,725	\$ 10,642

a) Long-term debt is comprised of the following:

(Millions)	2006		2006 Weighted Average Interest Rate	2005		2005 Weighted Average Interest Rate
	Fair Value	Cost		Fair Value	Cost	
Real estate						
Secured debt (i)	\$ 734	\$ 700	5.46%	\$ 821	\$ 773	5.36%
Series A debentures (ii)	531	500	4.28%	539	500	4.19%
Series B debentures (iii)	502	500	4.30%	508	500	4.01%
Commercial paper (iv)	1,138	1,138	4.31%	298	298	3.29%
Unsecured debt	1	1	6.43%	2	2	7.53%
	2,906	2,839	5.18%	2,168	2,073	4.47%
Infrastructure						
Secured debt (v)	1,626	1,496	5.42%	1,376	1,282	5.60%
Unsecured debt	18	18	4.50%	18	18	7.42%
	1,644	1,514	5.41%	1,394	1,300	5.62%
Private equity						
Secured debt (vi)	41	41	5.27%	—	—	—
Total (vii)	\$ 4,591	\$ 4,394	5.26%	\$ 3,562	\$ 3,373	4.92%

- i) Includes mortgages and other secured debt with various terms to maturity up to 2027 with each debt instrument secured by a specific asset.
- ii) OMERS Realty Corporation Series A 5.48% Debentures issued November 27, 2002, maturing December 31, 2012.
- iii) OMERS Realty Corporation Series B 4.69% Debentures issued April 25, 2003, maturing June 2, 2008.
- iv) OMERS Realty Corporation Commercial Paper with maturities as at December 31, 2006 up to March 28, 2007.
- v) Includes mortgages and other secured debt with various terms to maturity up to 2031 with each debt secured by a specific infrastructure asset.
- vi) Credit facility maturing April 11, 2011 secured by specific private equity assets.
- vii) Scheduled principal repayments for each of the five years subsequent to December 31, 2006 and thereafter are as follows:

(Millions)	
2007	\$ 1,272
2008	749
2009	120
2010	221
2011	119
Thereafter	1,913
	\$ 4,394

- b) As part of the securities lending program, OMERS receives cash collateral that it invests in short-term interest bearing investments. OMERS is obligated to return the cash collateral upon termination of the arrangement.

NOTE 7 – OMERS PRIMARY PENSION PLAN

The OMERS Primary Pension Plan is a multi-employer pension plan administered by OMERS whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency.

A summary of the financial statements for the Plan as at and for the year ended December 31 is as follows:

(Millions)	2006	2005
Statement of Net Assets		
Net investment assets (i)	\$ 47,466	\$ 40,973
Other assets	148	145
Other liabilities	(38)	(72)
Net Assets	\$ 47,576	\$ 41,046
Statement of Changes in Net Assets		
Net investment income	\$ 6,528	\$ 5,514
Contributions	1,780	1,525
Benefits	(1,740)	(1,600)
Pension administrative expenses	(38)	(36)
Total Increase	6,530	5,403
Net assets, beginning of year	41,046	35,643
Net Assets, End of Year	\$ 47,576	\$ 41,046

i) Excludes amounts due to administered funds.

Actuarial Value of Net Assets of the Plan

The actuarial value of net assets of the Plan is established such that investment returns above or below the long-term return assumption for the year 2006 of 7.00 per cent (2005 – 7.25 per cent) are deferred and amortized over 5 years to adjust the value of net assets. For the year, \$2,924 million of investment income was credited to the actuarial valuation adjustment because the investment return was in excess of the long-term rate of return assumption. As a result, at December 31, 2006, the Plan has \$5,791 million in investment gains (2005 – \$2,707 million) in an actuarial valuation adjustment reserve which is the present value of the amount of previous excess investment returns to be recognized from 2007 through 2010 as follows:

(Millions)	Actuarial Valuation Adjustment as at Dec. 31, 2006	Unrecognized Investment Returns to be Recognized in				Actuarial Valuation Adjustment as at Dec. 31, 2005
		2007	2008	2009	2010	
2002	\$ –	\$ –	\$ –	\$ –	\$ –	\$ (1,183)
2003	354	378	–	–	–	661
2004	629	336	358	–	–	882
2005	1,884	670	716	764	–	2,347
2006	2,924	780	833	889	949	–
	\$ 5,791	\$ 2,164	\$ 1,907	\$ 1,653	\$ 949	\$ 2,707

Accrued Pension Benefits of the Plan

The actuarial present value of accrued benefits is an estimate of the value of pension and other benefit obligations of the Plan in respect of benefits accrued to date for all active and inactive members. This obligation is measured using the same actuarial assumptions and methods adopted by OMERS for setting the long-term funding target. Since there is no intention of terminating the obligations for the foreseeable future, the fair value is best approximated by using the same actuarial basis. As underlying conditions change over time, the actuarial basis may also change, which could cause a material change in the actuarial present value of accrued benefits.

The projected accrued benefit method (pro-rated on service) is used for the actuarial valuation. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages and gets closer to retirement.

The following actuarial assumptions have been used in the actuarial valuation of the Plan as at December 31:

	2006	2005
Assumed rate of inflation	2.50%	2.75%
Assumed rate of pensionable earnings increases (Estimate based on inflation plus an age-related increase)	4.00%	4.25%
Assumed actuarial rate of return on plan assets and discount rate	6.75%	7.00%

As a pension plan which provides 100% inflation protection, the Plan's accrued benefit obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases which impacts future benefits and the assumed real rate of return on plan assets which is also used in the discounting of these future benefits. A 50 basis point change in the real rates for a particular assumption (with no change in other assumptions) would have the following approximate effects on the accrued benefit obligation:

50 Basis Point Decrease/Increase	Effect on Accrued Benefit Obligation
Rate of pensionable earning increases	-/+2.5%
Real return on plan assets and discount rate	+/-7.8%

The accrued benefit obligation as at December 31, 2006, which follows, takes account of known changes in the Plan membership up to December 3, 2006, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2007, and an estimated pensionable earnings increase for 2006, which is based on the results of a survey of major OMERS employers.

(Millions)	2006	2005
Fair value of net assets of the Plan at end of year	\$ 47,576	\$ 41,046
Actuarial value adjustment	(5,791)	(2,707)
Actuarial value of net assets at end of year	41,785	38,339
Accrued benefit obligation at beginning of year	41,123	37,774
Interest accrued on benefits	2,934	2,790
Benefits accrued	1,660	1,500
Benefits paid (note 12)	(1,740)	(1,600)
Plan amendments	—	13
Experience, actuarial and other losses/(gains)	190	646
Accrued benefit obligation at end of year	44,167	41,123
Deficit of actuarial value of net assets over actuarial liabilities	\$ (2,382)	\$ (2,784)

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented on a going concern basis. Under the PBA a solvency (hypothetical windup) valuation must be performed on the Plan, even though the risk of it being wound up, in management's view, is remote. This special valuation assumes a liquidation scenario. As permitted by the PBA, the solvency valuation uses the fair value of assets and a liability discount rate based on long-term nominal bond yields at the valuation date. Under this method, no allowance is made for future salary increments or future cost of living increases.

The actuarial present value of accrued pension benefits for the Plan under the solvency valuation was estimated to be \$42,443 million as at December 31, 2006 (2005 – \$40,255 million). As at December 31, 2006, the fair value of net assets of the Plan, allowing for a provision for expenses on windup, was \$47,515 million (2005 – \$40,985 million).

NOTE 8 – RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement was established by OMERS to provide pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act* with respect to service after 1991. Under the *OMERS Act*, OMERS is the plan administrator and funding agent of the RCA. The accounting for the RCA is separate from the Plan.

The full earnings pension benefits provided by the RCA are not fully funded but are funded based on a modified pay-as-you-go funding policy in order to minimize the impact of the 50 per cent refundable tax applicable to RCA plans. Contributions under the full earnings plan (based on the top-tier Plan contribution rates) are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Plan which was \$119,764 for 2006 (2005 – \$113,871). Benefits in excess of the maximum allowed by the *Income Tax Act* will be paid from the RCA.

Due to the funding policy adopted, the RCA liabilities continue to exceed the RCA assets. However, based on the assumption that contributions to the RCA will continue, it is expected that the annual cash inflow will be more than sufficient to cover the annual benefit payments and that the RCA assets will continue to grow in the foreseeable future. A relatively small increase in the number of terminations and retirements at the higher income levels, however, can increase actual benefit payments from, and decrease actual contributions to, the RCA.

A summary of the financial statements for the RCA as at and for the year ended December 31 is as follows:

(Millions)	2006	2005
Statement of Net Assets		
Net investment assets	\$ 14	\$ 9
Other assets	15	11
Other liabilities	–	(1)
Net Assets	\$ 29	\$ 19
Statement of Changes in Net Assets		
Net investment income	\$ 2	\$ 1
Contributions	12	9
Benefits	(4)	(3)
Total Increase	10	7
Net assets, beginning of year	19	12
Net Assets, End of Year	\$ 29	\$ 19

The actuarial assumptions used for the RCA are consistent with those used for the Plan except that the discount rate as at December 31, 2006 is 3.375 per cent (2005 – 3.5 per cent), which is 50 per cent of the Plan rate in order to approximate the effect of the 50 per cent refundable tax under the RCA.

Determination of the value of the RCA accrued benefit obligation is made on the basis of a periodic actuarial valuation. The deficit of net assets over actuarial liabilities is as follows for December 31:

(Millions)	2006	2005
Fair value of net assets at end of year	\$ 29	\$ 19
Accrued benefit obligation at beginning of year	157	149
Interest accrued on benefits	6	5
Benefits accrued	6	7
Benefits paid (note 12)	(4)	(3)
Experience, actuarial and other losses/(gains)	7	(1)
Accrued benefit obligation at end of year	172	157
Deficit of actuarial value of net assets over actuarial liabilities	\$ (143)	\$ (138)

NOTE 9 – NET INVESTMENT INCOME

OMERS investments consist of the following major asset classes: Public markets (which includes OMERS investments in interest bearing investments, including mortgages and private debt, and public equities); Private equity; Infrastructure and Real estate.

Income from assets backing derivative financial instruments is reported in the particular investment category by major asset class. Realized and unrealized income from derivative financial instruments is \$198 million (2005 – \$1,136 million).

OMERS investment income for each major asset class is as follows:

2006					
(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income	Investment Management Expenses (note 13(b)), (iii)	Net Investment Income
Public markets (iv)	\$ 1,099	\$ 3,855	\$ 4,954	\$ (84)	\$ 4,870
Private equity (iv)	92	317	409	(49)	360
Infrastructure	379	40	419	(31)	388
Real estate (v)	350	671	1,021	(5)	1,016
	\$ 1,920	\$ 4,883	\$ 6,803	\$ (169)	6,634
Income credited to administered funds					(104)
Net investment income					\$ 6,530

2005					
(Millions)	Investment Income (i)	Net Gain/(Loss) on Investments and Derivatives (ii)	Total Investment Income	Investment Management Expenses (note 13(b)), (iii)	Net Investment Income
Public markets (iv)	\$ 962	\$ 3,155	\$ 4,117	\$ (76)	\$ 4,041
Private equity (iv)	64	373	437	(54)	383
Infrastructure	157	263	420	(27)	393
Real estate (v)	392	401	793	(3)	790
	\$ 1,575	\$ 4,192	\$ 5,767	\$ (160)	5,607
Income credited to administered funds					(92)
Net investment income					\$ 5,515

- i) Net of total interest on real estate investment liabilities of \$126 million (2005 – \$124 million), infrastructure investment liabilities of \$55 million (2005 – \$36 million) and private equity investment liabilities of \$2 million (2005 – \$nil).
- ii) Includes net realized gain of \$2,336 million (2005 – \$2,269 million).
- iii) Investment management expenses relate to corporate activity.

iv) Total investment income for Public markets and Private equity are as follows:

(Millions)	2006			2005		
	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income
Public Markets						
Interest Bearing Investments						
Short-term deposits	\$ 187	\$ -	\$ 187	\$ 128	\$ -	\$ 128
Bonds and debentures	293	(42)	251	293	81	374
Mortgages and private debt	92	(16)	76	107	(15)	92
	572	(58)	514	528	66	594
Real return bonds	53	(102)	(49)	40	161	201
	625	(160)	465	568	227	795
Public Equity						
Canadian equities	175	1,835	2,010	146	1,754	1,900
Non-Canadian equities	299	2,180	2,479	248	1,174	1,422
	474	4,015	4,489	394	2,928	3,322
	\$ 1,099	\$ 3,855	\$ 4,954	\$ 962	\$ 3,155	\$ 4,117
Private Equity						
Canadian private equities	\$ 80	\$ 96	\$ 176	\$ 55	\$ 163	\$ 218
Non-Canadian private equities	12	221	233	9	210	219
	\$ 92	\$ 317	\$ 409	\$ 64	\$ 373	\$ 437

v) Total investment income for Real estate is as follows:

(Millions)	2006	2005
Revenue		
Rental	\$ 990	\$ 997
Investment	74	79
	1,064	1,076
Expenses		
Property operating and other expenses (i)	(588)	(560)
Operating income	476	516
Interest expense	(126)	(124)
	350	392
Net Gain/(Loss)		
Properties	608	386
Debt	26	7
Investments and other	37	8
	671	401
Total investment income	\$ 1,021	\$ 793

i) Includes audit costs of \$1.4 million (2005 – \$1.6 million) and legal costs of \$4.0 million (2005 – \$4.9 million).

NOTE 10 – INVESTMENT RETURNS

Investment returns have been calculated in accordance with methods set forth by the CFA Institute and the Pension Investment Association of Canada.

	2006	2005
Interest bearing (i)	4.7%	7.0%
Real return bonds	-2.9%	15.2%
Canadian public equities	21.3%	23.6%
Non-Canadian public equities (ii)	20.0%	11.8%
Private equity (ii)	17.7%	23.2%
Infrastructure (ii)	14.0%	23.2%
Real estate (ii)	26.2%	26.0%
Total Plan	16.4%	16.0%

- i) Interest bearing investments include short-term deposits, bonds and debentures, mortgages and private debt.
- ii) Return for non-Canadian public equities, private equity, infrastructure and real estate include the results of OMERS currency hedging related to the respective asset classes.

NOTE 11 – CONTRIBUTIONS

(Millions)	2006	2005
Employer and member contributions (i)	\$ 1,739	\$ 1,498
Transfers from other pension plans	28	15
Other contributions (ii)	25	21
	\$ 1,792	\$ 1,534

- i) Employer and member contributions are funded equally by employers and members. For NRA 65 members, the contribution rate is 6.5 per cent (2005 – 6.0 per cent) of earnings up to \$42,100 (2005 – \$41,100) and 9.6 per cent (2005 – 8.8 per cent) of earnings for earnings above that level. For NRA 60 members, the contribution rate is 7.9 per cent (2005 – 7.3 per cent) of earnings up to \$42,100 (2005 – \$41,100) and 10.7 per cent (2005 – 9.8 per cent) of earnings for earnings above that level.
- ii) Other contributions include amounts for leaves of absence, conversion of normal retirement age and contract adjustments.

For the year ended December 31, 2006, contributions to the Plan were \$1,780 million (2005 – \$1,525 million) and to the RCA were \$12 million (2005 – \$9 million).

NOTE 12 – BENEFITS

(Millions)	2006	2005
Members' pensions	\$ 1,492	\$ 1,410
Commuted value payments and members' contributions plus interest refunded	212	160
Transfers to other pension plans	40	33
	\$ 1,744	\$ 1,603

For the year ended December 31, 2006, total benefit payments from the Plan were \$1,740 million (2005 – \$1,600 million) and from the RCA were \$4 million (2005 – \$3 million).

NOTE 13 – PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

a) Pension administrative expenses (i)

(Millions)	2006	2005
Salaries and benefits	\$ 23	\$ 20
System development and other purchased services	8	7
Premises and equipment	2	4
Professional services (ii)	2	4
Travel and communication	3	1
	\$ 38	\$ 36

b) Investment management expenses (i)

	2006				
(Millions)	Public Market	Private Equity	Infra-structure	Real Estate	Total
Salaries and benefits	\$ 19	\$ 8	\$ 23	\$ 1	\$ 51
System development and other purchased services	7	2	–	1	10
Premises and equipment	2	–	2	–	4
Professional services (ii)	1	3	3	1	8
Travel and communication	4	2	1	–	7
Investment operating and manager expenses	51	34	2	2	89
	\$ 84	\$ 49	\$ 31	\$ 5	\$ 169

	2005				
(Millions)	Public Market	Private Equity	Infra-structure	Real Estate	Total
Salaries and benefits	\$ 19	\$ 16	\$ 22	\$ 1	\$ 58
System development and other purchased services	6	1	–	–	7
Premises and equipment	4	1	1	–	6
Professional services (ii)	1	3	2	–	6
Travel and communication	1	1	–	–	2
Investment operating and manager expenses	45	32	2	2	81
	\$ 76	\$ 54	\$ 27	\$ 3	\$ 160

- i) Includes allocation of corporate expenses.
- ii) Total professional services expenses include actuarial costs of \$0.6 million (2005 – \$1.0 million), audit costs of \$0.7 million (2005 – \$0.6 million) and legal costs of \$5.5 million (2005 – \$5.0 million).

NOTE 14 – EXECUTIVE COMPENSATION

The compensation amounts for 2006 and 2005 are included under salaries and benefits in note 13. The table below represents disclosure of base earnings, annual incentive plan, long-term incentive plan and other compensation earned in 2004, 2005 and 2006 by the President and Chief Executive Officer (“CEO”), the individuals holding the position of Chief Financial Officer (“CFO”) and the other individuals reporting directly to the CEO in 2006.

Name and Principal Position	Year	Base Earnings	Annual Incentive Plan (i)	Long-Term Incentive Plan (ii)	Other (iii)	Taxable Benefits (iv)	Total
Paul G. Haggis	2006	\$ 450,000	\$ 524,637	\$ 133,123	\$ –	\$ 16,581	\$ 1,124,341
President and CEO	2005	425,000	374,999	133,123	–	16,528	949,650
	2004	363,462	206,446	–	–	17,108	587,016
Patrick G. Crowley (v)	2006	\$ 30,769	\$ –	\$ –	\$ 826	\$ 109	\$ 31,704
Chief Financial Officer							
Paul G. Renaud (vi)	2006	\$ 383,230	\$ 566,138	\$ 318,547	\$ –	\$ 23,737	\$ 1,291,652
President and CEO	2005	360,000	346,500	105,547	–	19,927	831,974
OMERS Capital Partners Inc. (Private Equity)	2004	55,385	50,000	–	–	2,027	107,412
Paul Pugh (vii)	2006	\$ 275,000	\$ 231,357	\$ 234,763	\$ 10,740	\$ 6,770	\$ 758,630
Senior Vice President	2005	310,481	168,902	–	5,489	2,496	487,368
Public Investments	2004	242,308	256,800	–	–	1,605	500,713
Debbie Oakley	2006	\$ 195,422	\$ 112,343	\$ 111,493	\$ 10,740	\$ 918	\$ 430,916
Senior Vice President	2005	195,422	80,612	111,493	10,254	988	398,769
Corporate Affairs	2004	202,144	57,936	74,329	17,596	1,053	353,058
Selma M. Lussenburg (viii)	2006	\$ 275,000	\$ 275,000	\$ 93,701	\$ 10,740	\$ 6,537	\$ 660,978
Senior Vice President	2005	275,000	189,062	93,701	10,258	1,846	569,867
General Counsel and Corporate Secretary	2004	163,942	137,500	–	5,600	741	307,783
Floretta Paladino (ix)	2006	\$ 175,000	\$ 105,000	\$ 68,060	\$ –	\$ 799	\$ 348,859
Vice President	2005	182,456	63,525	68,060	–	864	314,905
Human Resources	2004	153,282	55,918	34,975	10,000	814	254,989
Jennifer Brown (x)	2006	\$ 220,000	\$ 220,000	\$ 67,552	\$ 10,740	\$ 1,025	\$ 519,317
Senior Vice President	2005	192,096	154,513	67,552	2,685	709	417,555
Pensions							
R. Michael Latimer (xi)	2006	\$ 600,000	\$ 600,000	\$ 1,980,402	\$ 30,000	\$ 22,967	\$ 3,233,369
President and CEO	2005	600,000	600,000	–	30,000	22,367	1,252,367
OPGI Management GP Inc. (Real Estate)	2004	510,000	480,000	–	25,577	17,158	1,032,735
Michael Nobrega (xi)	2006	\$ 400,000	\$ 796,000	\$ 1,861,532	\$ 39,231	\$ 53,171	\$ 3,149,934
President and CEO	2005	400,000	752,000	–	39,231	52,364	1,243,595
Borealis Capital Corporation (Infrastructure)	2004	346,154	600,000	–	35,839	37,179	1,019,172

- i) The annual incentive plan is based on a combination of achieving corporate and individual performance objectives, such as investment performance targets and pension service standards. The annual incentive plan amount relates to the year it was earned.

- ii) The long-term incentive plan is awarded based on meeting pension and/or investment return objectives over a multi-year performance period.
- iii) Includes hiring, retirement, car and other allowances.
- iv) Includes group retirement saving plan contributions, insurance, car and fitness benefits.
- v) Joined OMERS on December 4, 2006.
- vi) Joined OMERS on November 8, 2004 as Senior Vice President and CFO. Assumed the role of President and CEO of OMERS Capital Partners Inc. on May 25, 2006 and continued to act as interim CFO until December 4, 2006. The 2006 amounts reflect compensation from both positions.
- vii) Joined OMERS on April 26, 2004.
- viii) Joined OMERS on May 31, 2004.
- ix) Direct reporting to the CEO commenced on March 1, 2004.
- x) Assumed Senior Vice President, Pensions role on January 3, 2005.
- xi) Employment commenced on February 21, 2004.

The following table represents disclosure of the present value of pension benefits and years of credited service for the President and Chief Executive Officer, the individuals holding the position of Chief Financial Officer and the other individuals reporting directly to the CEO in 2006 who are members of the Plan and the RCA at December 31, 2006.

Name and Principal Position	2006 Change in Pension Value	2006 Present Value of Total Pension	Number of Years of Credited Service
Paul G. Haggis President and CEO	\$ 262,746	\$ 675,191	3.3
Patrick G. Crowley Chief Financial Officer	\$ 6,393	\$ 6,393	0.1
Paul G. Renaud President and CEO OMERS Capital Partners Inc. (Private Equity)	\$ 189,579	\$ 374,588	2.2
Paul Pugh Senior Vice President Public Investments	\$ 135,385	\$ 316,032	2.7
Debbie Oakley Senior Vice President Corporate Affairs	\$ 154,400	\$ 1,664,643	25.7
Selma M. Lussenburg Senior Vice President General Counsel and Corporate Secretary	\$ 121,482	\$ 275,397	2.6
Floretta Paladino Vice President Human Resources	\$ 121,372	\$ 688,812	18.3
Jennifer Brown Senior Vice President Pensions	\$ 195,014	\$ 784,848	16.2

NOTE 15 – GUARANTEES, COMMITMENTS AND CONTINGENCIES

As part of normal business operations, OMERS enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments include but may not be limited to investments in infrastructure, real estate and private equity limited partnership agreements. As at December 31, 2006, these future commitments totaled \$5.2 billion (2005 – \$4.1 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was \$346 million as at December 31, 2006.

OMERS, in the normal course of business, indemnifies its and its subsidiaries' and affiliates' directors, officers, employees and certain others in connection with proceedings against them. In addition, OMERS may in certain circumstances in the course of investment activities, agree to indemnify a counterparty. Under the terms of such arrangements, OMERS and/or its subsidiaries and affiliates may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations or legal claims. The contingent nature of the liabilities in such agreements and the range of indemnification prevent OMERS from making a reasonable estimate of the maximum amount that would be required to pay all such indemnifications.

As at December 31, 2006, OMERS was involved in litigation and claims which arise in the normal course of business. The outcome of such litigation and claims is inherently difficult to predict; however, in the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of OMERS.

Senior Executive Management Team



(l-r) **Paul G. Renaud**, President and CEO, OMERS Capital Partners Inc. (Private Equity), **Jennifer Brown**, Senior Vice President, Pensions, **John Liu**, Vice President and Chief Internal Auditor, **Michael Latimer**, President and CEO, OPGI Management GP Inc. (Real Estate), **Paul G. Haggis**, President and CEO, **Michael Nobrega**, President and CEO, Borealis Capital Corporation (Infrastructure), **Selma M. Lussenburg**, Senior Vice President, General Counsel and Corporate Secretary, **Flo Paladino**, Vice President, Human Resources, **Patrick Crowley**, Chief Financial Officer, **Paul Pugh**, Senior Vice President, Public Investments, **Debbie Oakley**, Senior Vice President, Corporate Affairs

Corporate and Board Governance

OMERS ability to fulfill its pension promise is rooted in our history of effective and transparent pension plan governance. Over the past 44 years, we have continuously sought to achieve the highest standards.

The New OMERS Act

A unique event in OMERS 44-year history occurred on June 30, 2006 with the proclamation of the new *Ontario Municipal Employees Retirement System Act, 2006* (the OMERS Act).

The new OMERS Act replaced the Government of Ontario as sponsor by establishing a new OMERS Sponsors Corporation ("SC") responsible for pension plan design and setting contribution rates for the OMERS pension plans, including the OMERS Primary Pension Plan and the Retirement Compensation Arrangement. In addition, the OMERS Act continued the Ontario Municipal Employees Retirement Board as the OMERS Administration Corporation ("OMERS"), responsible for pension administration, valuation of the actuarial liability and investment of the pension funds. The initial appointments to the SC and OMERS boards (14 members to each) were made by the Government of Ontario as set out in the legislation. Subsequent appointments will be as set out in the legislation or in SC by-laws.

The new OMERS Act also required that OMERS implement a supplemental pension plan to provide benefits to members of the police sector, firefighters and paramedics by July 1, 2008. Supplemental plans are stand-alone registered pension plans which offer benefits not available in the OMERS Primary Pension Plan and are not funded from the Plan. The legislation permits the SC to create additional supplemental pension plans in the future.

OMERS is committed to implementing the new governance structure and working with the SC to ensure the ongoing success of the organization. Highlights of OMERS ongoing activities in this area include:

- Confirmation of its Board of Directors (including Chair and Vice-Chair appointments) and committees.
- Finalization of new corporate by-laws.
- Approval of a consolidation and restatement of the OMERS Primary Pension Plan Text which will take the place of the former *OMERS Act and Regulation*. The restated Plan Text is subject to filing with and approval by our regulators.
- Initial orientation and education for the SC board members.
- Negotiation of funding agreement with the Government of Ontario for start-up costs associated with the implementation of the supplemental plan.
- Communication with members and employers to assure them that our mandate to administer the OMERS pension plans is unchanged.

Implementation of both the supplemental plan and the new governance structure is well underway and OMERS will continue to work effectively with the SC throughout 2007.

As part of the OMERS Act legislative process the government passed separate legislation stating that the new OMERS governance model will be reviewed no later than 2012 to assess its fairness, accountability and efficiency.

Board Governance

OMERS has policies and practices in place that support our commitment to best governance practices, including:

- Corporate By-laws and a Board member handbook.
- A Board education program that includes mandatory corporate director certification from The Directors College, operated in conjunction with The Conference Board of Canada, the DeGroote School of Business and McMaster University, as well as mandatory orientation in board operations and governance.

- Strict auditor independence guidelines that separate the audit and non-audit functions. OMERS external auditor is prohibited from providing non-audit consulting services.
- A Code of Ethics and Professional Conduct, covering areas such as conflict of interest, fiduciary duty, workplace harassment, discrimination, privacy and confidentiality, that applies to OMERS Board members and staff who are required to affirm their compliance each year.
- An “ethics hotline” supported by a “whistle-blowing” policy.
- A conflict of interest policy regarding investments. Board members, senior management and appropriate investment and accounting staff must preclear their securities trades and disclose holdings and sign an annual certificate of compliance.
- A requirement that members of the Audit Committee meet the standard of financial literacy.
- Transparency and accountability to plan participants through regular meetings with plan participants and stakeholders as well as timely and accurate print and electronic communication. We regularly publish summaries of Board proceedings on the OMERS website.

Board Mandate

With its obligation to manage the Plan in the best interests of all Plan members the Board has a challenging mandate to achieve pension excellence. In carrying out this mandate, the Board has a number of key responsibilities, including:

- Administering the Plan and RCA;
- Ensuring appropriate allocation of financial resources;
- Determining investment asset mix and establishing investment policies;
- Monitoring organizational effectiveness and establishing appropriate executive compensation policies;
- Monitoring the Plan’s funding status, appointing the Plan’s actuary and approving the actuarial valuation and funding policy;
- Providing support to the OMERS Sponsors Corporation.

Board Membership

Currently, the OMERS Administration Corporation Board comprises seven employer and seven plan member representatives as follows:

Employer Representatives

- Association of Municipalities of Ontario (2 members)
- City of Toronto (1 member)
- School Boards (rotates between public and Catholic Boards) (1 member)
- Ontario Association of Police Services Boards (1 member)
- Other employers (rotates among representatives of other employers) (2 members)

Plan Member Representatives

- Canadian Union of Public Employees (Ontario) (2 members)
- Police Association of Ontario (1 member)
- Association of Municipal Managers, Clerks and Treasurers of Ontario (1 member)
- Ontario Professional Fire Fighters Association (1 member)
- Other contributing members (rotates among other unions and associations) (1 member)
- Members receiving or entitled to a pension (rotates among organizations representing these members) (1 member)

Board Independence

The Board appoints the CEO, who is not a member of the Board, and reviews his/her performance regularly throughout the year. Day-to-day management of OMERS is delegated to the CEO. The Board also appoints the external auditor, master custodian and actuary, and has access to independent legal advice. The Board has regular *in camera* meetings without management present.

Board Remuneration

The Board members receive per diem payments authorized by Board policy which are consistent with Ontario Government Management Board Secretariat Guidelines. In the future Board remuneration will be determined by the Sponsors Corporation.

Board members receive per diem fees for Board and committee meetings and associated preparation time, other advisory meetings as well as mandatory education and eligible travel time. The Board Chair receives a \$247 per diem; the Board Vice Chair receives a \$225 per diem; and all other Board members receive a \$192 per diem. The Board Chair, the Board Vice Chair and each Committee Chair are reimbursed for 2.5 days of preparation time per month, and all other Board members are reimbursed for 2 days of preparation time per month. Fees are generally paid to the Board member; however, in some cases fees are paid to the employer.

The following table includes remuneration paid to 2006 Board members for Board and committee meetings, as well as associated preparation time in 2006 with comparable numbers for 2005.

	2006	2005
David Kingston (Chair)	\$ 22,230	\$ 18,563
John Sabo (Vice Chair)	17,621	14,112
Frederick Biro	15,168	20,131
David Carrington	13,728	14,304
Edward DeSousa (i)	6,528	—
Richard Faber (ii)	17,376	7,680
Marianne Love (i)	10,350	14,976
Rick Miller	14,976	14,880
Ann Mulvale	17,280	12,864
David O'Brien (i)	4,896	—
Michael Power	12,672	11,520
Peter Routliff	17,568	12,384
Gerard Sequeira (i), (iii)	4,800	—
John Weatherup (ii)	12,192	864
Cameron Weldon (ii), (iii)	12,960	7,008
Other (iv)	—	16,224
Total Board Remuneration	\$ 200,345	\$ 165,510

(i) Part year in 2006

(ii) Part year in 2005

(iii) Remuneration for these Board members is paid directly to their employer.

(iv) Other includes Board members on the Board in 2005 but not in 2006.

The per diems paid for mandatory education and eligible advisory meetings and travel time in aggregate amounted to \$77,202 in 2006 (\$64,929 in 2005).

Directors also receive reimbursement for normal business expenses on behalf of OMERS. Board expenses by director are reported to the Audit Committee annually.

Board Attendance

Board attendance in 2006 was over 92 per cent.

Board Committees

The Board has five standing committees which assist the Board in discharging its responsibilities by reviewing and making recommendations consistent with the following mandates:

Investment Committee (Committee of the Whole)

- Reviews asset mix policy, reviews investment policy including the Statement of Investment Policies & Procedures, reviews and approves major investment decisions.

Pension Committee

- Reviews plan service quality and standards, pension communications, plan administration policy and Board-mandated administrative decisions. May consider and review, as appropriate, pension plan design and actuarial matters.

OMERS ADMINISTRATIVE COMMITTEE MEMBERS



David Kingston, Chair*

Plan Member Representative for Police Association of Ontario



Frederick Biro*

Executive Director, Regional Municipality of Peel Police Services Board
Employer Representative for Ontario Association of Police Services Boards



David Carrington*

Energy Advisor
Toronto Hydro Electric System Ltd.
Plan Member Representative for Canadian Union of Public Employees



Edward DeSousa

Director of Finance & Treasurer
Town of Halton Hills
Plan Member Representative for Association of Municipal Managers, Clerks and Treasurers of Ontario



Richard Faber*

Retiree, formerly Director of Administration for City of London
Plan Member Representative for Retirees



Rick Miller*

Fire Fighter, Windsor Fire Department
Plan Member Representative for Ontario Professional Fire Fighters Association



Ann Mulvale*

Past Mayor, Town of Oakville
Employer Representative for Association of Municipalities of Ontario



David O'Brien

President and CEO
Toronto Hydro Corporation
Employer Representative for Other Employers



Michael Power*

Mayor, Municipality of Greenstone
Employer Representative for Association of Municipalities of Ontario



Peter Routliff*

International Representative
International Brotherhood of Electrical Workers
Plan Member Representative
Other Plan Member



John Sabo, Vice Chair*

Associate Director, Corporate Services and Treasurer of the Board
York Catholic District School Board
Employer Representative for Ontario School Boards



Gerard Sequeira

Director, Finance & Administration, Municipal Property Assessment Corporation
Employer Representative for Other Employers



John Weatherup

President, CUPE 440(i)
Plan Member Representative for Canadian Union of Public Employees



Cameron Weldon*

Treasurer, City of Toronto
Employer Representative for City of Toronto

*Indicates a graduate of The Directors College

Audit Committee

- Monitors the integrity of OMERS financial reporting processes and system of internal control regarding financial reporting and accounting compliance, reviews financial statements, identifies and monitors management of principal risks that impact financial reporting, monitors the enterprise risk management program and assesses the independence and performance of OMERS external auditors and internal audit department.

Human Resources and Compensation Committee

- Reviews human resources strategy, executive compensation and performance, succession planning for the CEO and Senior Executive Management team, and non-executive compensation and incentive plans.

Governance Committee

- Reviews the mandate of the Board and its committees, evaluates Board orientation and education programs, reviews the composition of committees and qualifications for Board members, reviews all policies relating to Directors, ethical business conduct and external relations and communications.

Proxy Voting

OMERS strives to be a leader in terms of its own internal governance practices. We expect the same of the companies in which we invest.

OMERS beneficially owns shares valued at over \$22 billion in publicly traded companies around the world. OMERS believes that companies that have strong corporate governance are generally more capable of creating value for shareholders. We prefer to invest in companies governed by directors who understand that the best interests of the shareholders are met by effectively managed corporations where management has a well-thought-out strategy for expanding the business, running it efficiently and achieving long-term profitability.

The most important tool we have for influencing policy among investee companies is by exercising our ownership rights through our proxy votes. OMERS votes proxies diligently in accordance with specific guidelines that we believe will optimize the long-term value of our investments. Our Proxy Voting Guidelines set out OMERS policy on corporate governance matters and indicate how we will likely vote on individual issues. We consider the quality of a company's overall governance in deciding whether to vote for or against specific proposals. Votes are cast against those proposals we feel would dilute shareholder value.

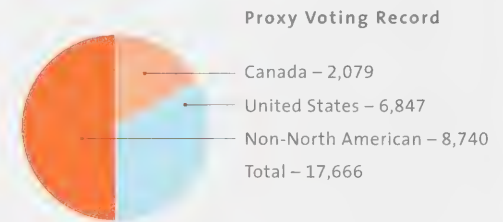
OMERS is a member of the Canadian Coalition for Good Governance whose purpose is to represent Canadian institutional shareholders through the promotion of best corporate governance practices and to align the interests of boards and management with those of the shareholder.

The Proxy Voting Guidelines and our voting record on major proposals for Canadian companies can be found on our website, www.omers.com.

OUR KEY PROXY VOTING PRINCIPLES

OMERS proxy voting guidelines are based on a number of key principles, including:

- Proper sharing of the rewards of enterprise between stakeholders is essential to long-term prosperity and the generation of long-term value.
- Stakeholders involved in the corporate governance process accept their respective roles with a sense of fairness.
- A corporation that does not respond to public concerns or reasonable shareholder requests will eventually suffer in terms of its economic and capital market performance.
- Ownership rights should not be subordinated. Minority shareholders should not be treated differently from controlling shareholders.
- The proxy vote is an important asset of a pension fund. Fiduciaries are obligated to exercise their ownership rights by voting proxies diligently in order to optimize the long-term value of their investments.
- Effective management of the risks associated with social, environmental and ethical matters can lead to long-term financial benefits for the companies concerned and shareholders have a right to know about the activities of their companies.
- All fiduciary votes at board and shareholders' meetings should be confidential, and tallied by an independent auditor as appropriate.
- Prompt disclosure of the results of votes at annual meetings is an important governance practice.



PROXY VOTES IN 2006

During 2006, OMERS voted a total of 17,666 ballots covering 1,912 shareholder meetings globally. In Canada, OMERS cast 2,079 ballots in 283 shareholder meetings. Outside of Canada, OMERS cast 15,587 ballots in 1,629 shareholder meetings.

Ten Year Financial Review

(\$ Millions)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
NET ASSETS as at December 31										
Public markets	43,573	39,338	30,283	30,168	23,823	27,755	30,941	30,303	28,026	26,173
Private equity	2,911	2,391	1,460	914	1,021	1,031	1,128	849	508	474
Infrastructure	5,585	3,719	2,314	1,426	349	279	—	—	—	—
Real estate	8,541	6,180	6,898	6,920	7,747	8,181	4,707	4,126	3,995	2,729
	60,610	51,628	40,955	39,428	32,940	37,246	36,776	35,278	32,529	29,376
Other investment assets	699	765	494	578	733	652	637	493	297	244
Investment liabilities	(13,088)	(10,772)	(5,267)	(7,297)	(3,540)	(3,977)	(860)	(280)	(916)	(102)
Net investment assets	48,221	41,621	36,182	32,709	30,133	33,921	36,553	35,491	31,910	29,518
Non investment assets/(liabilities)										
Due to administered funds	(741)	(639)	(553)	(496)	(440)	(487)	(528)	(502)	(437)	(395)
Other assets/(liabilities)	125	83	26	(120)	(188)	(191)	(150)	(59)	(93)	(15)
Net assets	47,605	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108
CHANGES IN NET ASSETS										
for the period ended December 31										
Net assets, beginning of year	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108	25,378
Changes due to Investment Activities										
Total investment income	6,803	5,767	3,907	3,751	(2,358)	(1,362)	2,114	4,711	2,949	3,778
Investment management expenses	(169)	(160)	(147)	(158)	(103)	(69)	(62)	(52)	(50)	(40)
	6,634	5,607	3,760	3,593	(2,461)	(1,431)	2,052	4,659	2,899	3,738
Income credited to administered funds	(104)	(92)	(66)	(51)	28	4	(47)	(85)	(52)	(62)
Net investment income	6,530	5,515	3,694	3,542	(2,433)	(1,427)	2,005	4,574	2,847	3,676
Changes due to Pension Activities										
Contributions										
Employer and member	1,739	1,498	1,363	404	—	—	—	—	364	869
Other contributions	53	36	46	42	47	36	30	27	8	21
	1,792	1,534	1,409	446	47	36	30	27	372	890
Benefit payments to members										
Pensions paid	(1,492)	(1,410)	(1,353)	(1,246)	(1,153)	(1,034)	(916)	(817)	(761)	(699)
Commuted value and other payments	(252)	(193)	(145)	(110)	(149)	(159)	(129)	(188)	(159)	(113)
	(1,744)	(1,603)	(1,498)	(1,356)	(1,302)	(1,193)	(1,045)	(1,005)	(920)	(812)
Pension administrative expenses	(38)	(36)	(43)	(44)	(50)	(48)	(45)	(46)	(27)	(24)
Net assets, end of year	47,605	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108
APPLICATION OF NET ASSETS TO ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT)										
as at December 31										
OMERS Primary Pension Plan										
Net assets	47,576	41,046	35,643	32,087	29,500	33,236	35,867	34,921	31,372	29,100
Actuarial value adjustment of net assets	(5,791)	(2,707)	1,168	3,888	6,048	2,239	(1,913)	(3,957)	(3,135)	(3,310)
Actuarial assets	41,785	38,339	36,811	35,975	35,548	35,475	33,954	30,964	28,237	25,790
Actuarial liabilities	(44,167)	(41,123)	(37,774)	(35,466)	(33,034)	(30,955)	(28,104)	(25,462)	(22,283)	(21,105)
Surplus/(Deficit)	(2,382)	(2,784)	(963)	509	2,514	4,520	5,850	5,502	5,954	4,685
RCA										
Net assets	29	19	12	6	5	7	8	9	8	8
Actuarial liabilities	(172)	(157)	(149)	(69)	(63)	(71)	(54)	(42)	(41)	(39)
Deficit	(143)	(138)	(137)	(63)	(58)	(64)	(46)	(33)	(33)	(31)
TOTAL ANNUAL RATE OF RETURN										
for the period ended December 31										
Time weighted return on market value	16.4%	16.0%	12.1%	12.7%	-7.1%	-3.4%	6.2%	15.2%	10.1%	14.8%
Benchmark	13.7%	13.2%	9.9%	15.5%	-7.4%	-4.2%	4.1%	14.7%	10.7%	15.1%
Funding requirement (including inflation)	5.9%	6.4%	6.4%	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%	5.0%

Glossary

Absolute Return Strategies – Strategies expected to generate positive returns regardless of the movements of the financial markets due to their low correlation to broad financial markets. Absolute return strategies may be used with the objective of increasing the overall investment portfolio risk-adjusted return while contributing to the stability of the overall investment portfolio returns.

Active Management – Attempts to add value through asset mix decisions and the buying and selling of undervalued or overvalued securities. The objective is to outperform a passive market benchmark.

Actuarial Smoothing – A common practice accepted in the actuarial profession and by pension regulators to reduce the effect of short-term market fluctuations on pension plan funding by deferring and amortizing changes in net assets above or below the long-term funding objective over five years.

Actuarial Valuation Report – A report issued by the Plan's actuary on the funded status of the Plan. An actuarial valuation is based on a set of assumptions, as approved by the Board, that include demographic and economic assumptions.

Autonomy – Self-governing.

Basis Point – One basis point equals 1/100th of one percentage point.

Benchmark – A benchmark is a standard or point of reference against which performance of an investment is measured. It is generally a passive external index (i.e., the S&P/TSX Equity Only Composite Index) or predetermined operating budget.

Benefit Accrual – The accumulation of pension benefits based on a formula using years of credited service, pensionable earnings and an accrual rate. This is expressed in the form of an annual benefit to begin payment at normal retirement age.

Board – This is the Board of the OMERS Administration Corporation or its predecessor as appropriate.

Bridge Benefit – A temporary benefit provided to employees who retire prior to age 65. The bridge benefit supplements the pension income until age 65. The bridging benefit is not necessarily related to the size of the prospective government benefits.

Commercial Paper – Short-term unsecured debt instruments issued by companies typically to meet short-term financing needs.

Commuted Value – The lump sum needed today to replace a member's future pension amount based on the member's service and earnings to date. The commuted value fluctuates with changes in factors such as the member's age, current inflation and interest rates.

Currency Hedging – A technique used to offset the risks associated with the changing value of currency.

Custom Benchmark – A benchmark calculated based on the weighted average allocation to two or more underlying benchmarks (i.e., 50 per cent S&P/TSX Equity Only Composite Index + 50 per cent Scotia McLeod Universe Bond Index).

Debentures – Bonds that are not secured by the assets of a firm.

Debt Financing – The long-term borrowing of money by government or a business, usually in exchange for debt securities or a note, in order to obtain working capital or to retire other indebtedness.

Defined Benefit Plan – In a defined benefit plan members' benefits are determined by a formula usually based on years of service times earnings, rather than by the investment returns made on their pension contributions.

Derivative / Derivative Financial Instrument – A financial contract that derives its value from changes in underlying assets or indices. Derivatives transactions can be conducted on public exchanges or in the over-the-counter market using investment dealers. Derivatives contracts include forwards, futures, swaps and options and are discussed in more detail in note 4 of the Consolidated Financial Statements.

Discount Rate – A discount rate is the interest rate used to compute the present value of anticipated future cash flows.

Enterprise-wide – This refers to all of OMERS including Pension Division, Public Investments, Borealis Infrastructure, OMERS Capital Partners, Oxford Properties Group and corporate functions.

Infrastructure – Infrastructure investing involves direct investments in inflation sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both.

Modified Pay-As-You-Go Funding Policy – Promised retirement benefits are not fully pre-funded, instead contributions are paid into the

Retirement Compensation Arrangement (RCA) to fund benefits. This variation of the funding method is used by OMERS for the RCA, in order to minimize the 50 per cent refundable tax applicable to RCA plans.

Nominal Bonds – Bonds that pay interest and principal without contractual adjustments for inflation.

OMERS – This is the OMERS Administration Corporation, the administrator of the OMERS Primary Pension Plan.

Passive Investments – Investing in a manner that replicates the performance of a market index (i.e., S&P/TSX Equity Only Composite).

Plan Sponsor – The organization or body, which has the final authority to create a pension plan and/or make revisions to an existing pension plan. Usually the plan sponsor is an employer, but it can also be a union, an association, the government, or a mixture. For the OMERS Primary Pension Plan, the Sponsors Corporation is the sponsor and is made up of employer and member representatives.

Private Equity – Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly.

Proxy Voting – Proxy voting is the process by which a shareholder expresses their views, on proposed corporate actions, by submitting their vote at a company's annual meeting.

Public Markets – Public market investments are investments in securities (i.e., equities, trust units, warrants, mutual fund units, bonds, etc.) listed on recognized public exchanges.

Real Rate of Return – Nominal return adjusted to exclude the impact of inflation.

Real Return Bonds – Interest bearing marketable bonds that pay a semi-annual coupon rate calculated based upon the sum of the principal amount and an inflation compensation component that adjusts for changes in the inflation.

Secured Debt – Debt backed or secured by collateral to reduce the risk associated with lending for creditors given that if the debtor defaults the creditor may seize the collateral as repayment of the debt.

Supplemental Plan – A stand-alone registered pension plan which offers benefits not available in the OMERS Primary Pension Plan and which is not funded from the OMERS Primary Pension Plan.

Unsecured Debt – Debt which is not backed or secured by collateral property.

OMERS

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Plan for the Future

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one
team
one
goal

 **OMERS**

OMERS was established in 1962 as the pension plan for employees of local governments in Ontario. On June 30, 2006, the *Ontario Municipal Employees Retirement System Act, 2006* (the OMERS Act) came into effect. The new Act continued the Ontario Municipal Employees Retirement Board as the OMERS Administration Corporation (AC) and created a Sponsors Corporation (SC) to replace the Ontario government as plan sponsor. Sponsors (such as plan members, employers and retirees, through their unions, associations and other organizations) appoint the Board members of the SC and the AC.

OMERS Sponsors Corporation

OMERS Sponsors Corporation has 14 Board members: 7 plan member representatives, and 7 employer representatives.

The SC is responsible for:

- Determining plan design for benefits to be provided by the pension plans
- Setting contribution rates for members and participating employers
- Establishing or changing a reserve to stabilize contribution rates
- Setting compensation levels and appointment protocol of SC and AC Boards by June 2009

OMERS Administration Corporation

OMERS Administration Corporation Board has 14 Board members: 7 plan member representatives, and 7 employer representatives. It is the Administrator of the OMERS Plans under the PBA.

The AC is responsible for:

- Appointing OMERS management
- Investment policies, asset allocation and investment management of OMERS Plans' assets
- Pension services and administration
- Appointing the AC auditor and the actuary for the OMERS Plans.

OMERS Management

OMERS Management conducts the affairs of the AC and has been delegated broad responsibilities for ensuring that OMERS discharges its statutory and related responsibilities to plan members, including:

- Administering the OMERS Plans and implementing Supplemental Plans for the police sector, firefighters and paramedics
- Providing for the actuarial valuation of the OMERS Plans
- Investment of the OMERS Plans' assets
- Technical and administrative support for the SC.

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OMERS Sponsors Corporation

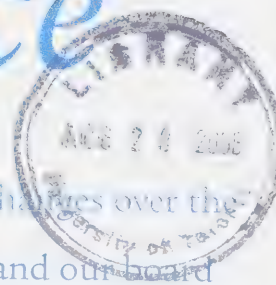
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one
team
one
goal



...performance

OMERS has implemented a number of significant changes over the past two years – improving our corporate structure and our board governance, and positioning a new leadership team to continue delivering on our pension promise to members. One thing that has not changed is our focus on working together to achieve the kind of investment performance and pension service quality that OMERS members and employers deserve. In 2007, we once again ranked among the pension industry's leaders in every meaningful performance measure and we did it together.



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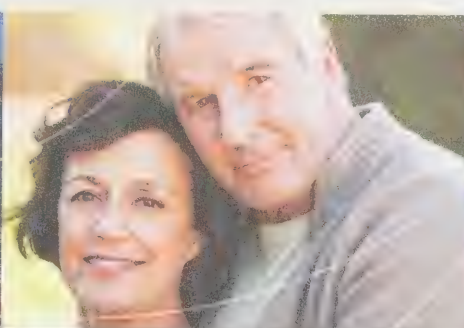
Plan for the Future

Working for our members The OMERS Primary Pension Plan is a multi-employer pension plan that serves over 380,000 current and former employees of more than 900 municipal governments, school boards, libraries, police and fire departments, children's aid societies and other local agencies throughout Ontario. The Plan is a contributory defined benefit pension plan. Equal contributions from participating employers and employees finance about 30% of benefits, while the Plan's investment earnings finance the remaining 70% over the long term.



OMERS MANAGEMENT

OMERS Management is the delegated authority which administers the OMERS Plans. OMERS Management has broad responsibilities for communicating to the members and sponsors on behalf of the SC and AC. Among the responsibilities are: undertaking an actuarial valuation of Plan liabilities for approval by the AC Board, investment management according to AC policy, and developing strategic plans.



PENSION SERVICES

Our Pension Division's mandate is to provide best-in-class service to our members and employers and we're committed to paying our members' pensions accurately and on time. Part of our pension promise is to provide information and assistance through a variety of access options and we deliver this by phone, written communications, on-line services and face-to-face presentations throughout the province. Established service standards measure our performance and ensure members are receiving the best service we can provide.

Sustaining and expanding best-in-class service standards are our top priorities. Anticipating growth in membership, service needs and legislative changes, we're establishing an operating environment with well-trained staff that has the flexibility to support expansion and new initiatives, such as Supplemental Plans. By listening to our members through regular surveys and focus groups, we can meet changing needs and enhance our reputation as a leader in pension services.



PUBLIC MARKET INVESTMENTS

OMERS Capital Markets

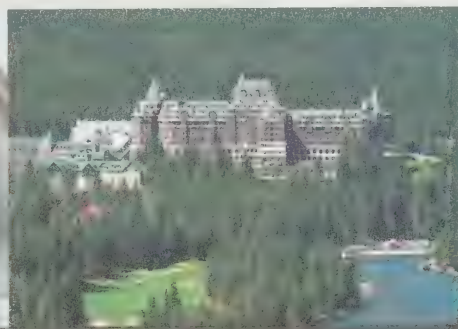
Management of our OMERS Capital Markets team is a critical element of our investing strategy. Making daily decisions on allocations to publicly traded companies as well as private equity investments such as venture capital, mezzanine and leveraged buyouts, the OMERS Capital Markets team is constantly positioned to identify capital growth and income opportunities, as well as value investment opportunities, and where these fit with goals and objectives of the fund and its members.

Our team's expertise allows us to meet the unique needs of our members. Our team is constantly evolving to meet the needs of our members and the market. Our team is constantly evolving to meet the needs of our members and the market. Our team is constantly evolving to meet the needs of our members and the market.



70.2% / 29.8% Public/Private Asset Mix

We have a responsibility to deliver pensions to our retirees – today and in the future. To ensure the stability of our Fund, we understand the importance of practicing a prudent, long-term strategy for building our investments. Our asset-mix strategy balances private and public investments, taking into account changing economic and financial trends and targeting growth opportunities. In 2007, the Fund's asset mix was 70.2% in public market and 29.8% in private market asset classes.



PRIVATE INVESTMENTS

OMERS Capital Partners

OMERS Capital Partners manages all aspects of our private equity investments, and our strategy includes both a fund and a direct investments program. For funds, we make commitments as a limited partner to top tier fund managers. The majority of our commitments are for leveraged buyout funds and we also commit to venture, mezzanine debt, distressed and special situation funds. Direct investments have two facets – investments where we either manage or exercise joint management; and investments where we make passive investments, representing a small equity ownership, alongside our fund manager.

Diversification by geographic market, industry sector and by company size is an important element of our strategy. Our direct control investments are focused primarily in Canada whereas our fund commitments are global.

Borealis Infrastructure

Borealis invests in and manages our global infrastructure assets, including Bruce Power, Scotia Gas Networks, Confederation Bridge, LifeLabs, Associated British Ports, Express Pipeline and Enwave Energy Corporation. A leader in infrastructure investing, Borealis manages a global portfolio of over 20 different investments with an enterprise value exceeding \$25 billion. These investments are ideal for long-term stable and predictable returns, consistent with the future needs of the OMERS Pension Plans.

Our strategy is to position Borealis as a first-choice partner for infrastructure investments around the world focusing on transportation, energy, pipelines and satellite communications.

Oxford Properties Group

Oxford Properties Group believes in a world of opportunity. For over four decades, acting as developer, owner, manager and investor, Oxford has created opportunities in the world's major real estate markets. Our understanding of real estate fundamentals and our unsurpassed access to resources combine to create knowledgeable capital that enables Oxford to add value to every transaction, partnership and opportunity. Our investments in real estate generate strong, sustainable cash flow with low volatility, contributing to the stability of the Fund.

The Oxford team continues to expand real estate holdings internationally. Investing in, managing and developing commercial real estate are three elements of the business that contribute to our success. We continue to diversify by property type and geographic market to deliver consistent returns within an appropriate risk profile.

one
team
one
goal



...performance

OMERS has implemented a number of significant changes over the past two years – improving our corporate structure and our board governance, and positioning a new leadership team to continue delivering on our pension promise to members. One thing that has not changed is our focus on working together to achieve the kind of investment performance and pension service quality that OMERS members and employers deserve. In 2007, we once again ranked among the pension industry's leaders in every meaningful performance measure and we did it together.



Our operating principles are key to our performance strategy.

1 Ensure the quality of our balance sheet.

- Our assets are prudently invested and deliver a return that meets our needs within an appropriate risk profile.
- Our assets match our liabilities.
- Our assets and our liabilities are fairly valued.

2 Ensure that the right organizational structure – with clear lines of accountability – is in place to meet our objectives.

- Our organization is aligned for accountability and clarity of purpose.
- Our organizational structure allows active, hands-on management of our assets.
- Our organizational design provides value for the cost.
- Everyone at OMERS knows what is expected of them and of others.

3 Ensure that our members' needs are understood and met.

- We understand the needs of all our members.
- We deliver what our members want, where and when they want it, and at a price that represents value for them.

4 Ensure we have the right people in the right jobs.

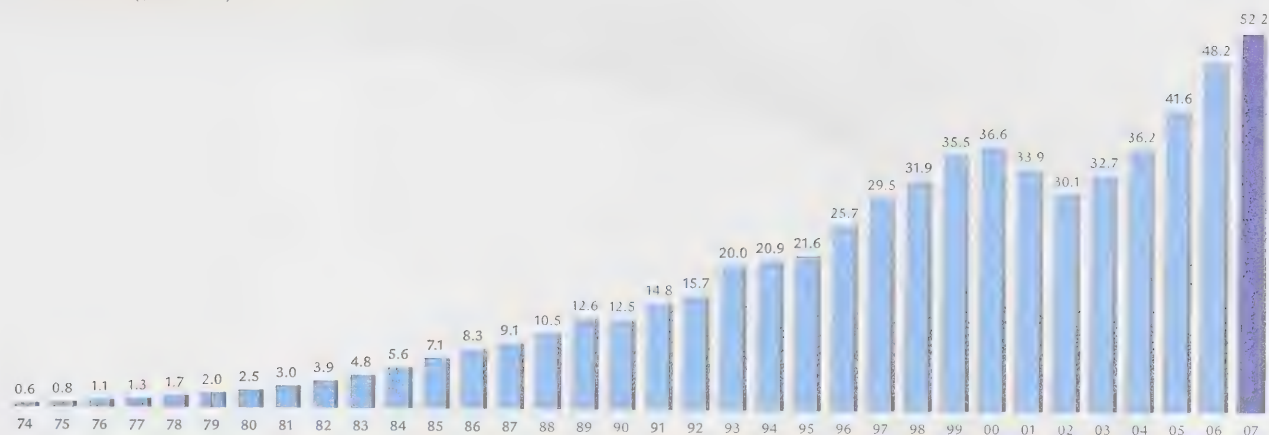
- Our business is organized around our primary asset: individuals making decisions.
- Our people are motivated, engaged and have the knowledge they need to achieve our aims.
- Our compensation programs reward performance.

5 Ensure we have access to the right management information.

- We have the information we need to manage our business.
- Our management information is timely, accurate and actionable.
- This information is universally understood throughout our organization.

NET INVESTMENT ASSET GROWTH

MARKET VALUE (\$ BILLIONS)

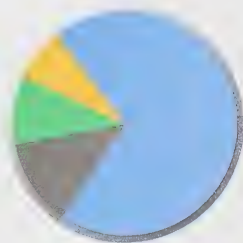


ASSET MIX

(AS AT DECEMBER 31, 2007)

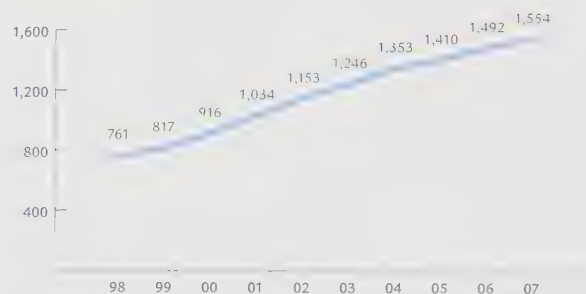
NET INVESTMENT ASSETS

- Public Markets 70.2%
- Private Equity 7.4%
- Infrastructure 9.9%
- Real Estate 12.5%



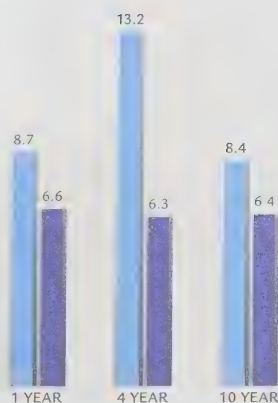
GROWTH IN MEMBERS' PENSION PAYMENTS

(\$ MILLIONS)



RATE OF RETURN VS. FUNDING OBJECTIVE (%)

- Actual Rate of Return
- Funding Objective

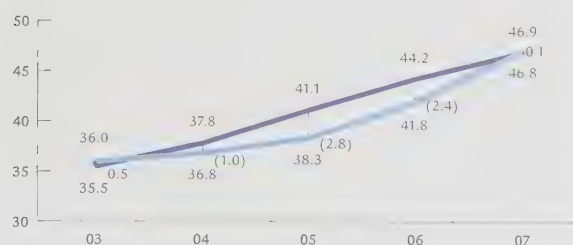


ACTUARIAL ASSETS AND LIABILITIES – OMERS PRIMARY PENSION PLAN

(AS AT DECEMBER 31, 2007)

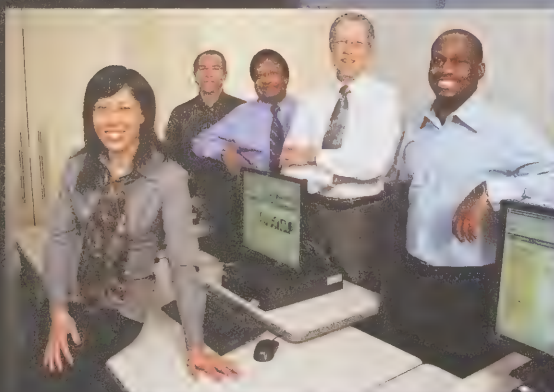
MARKET VALUE (\$ BILLIONS)

- Actuarial Assets
- Actuarial Liabilities
- Surplus/(Deficit)



Teamwork is an essential part of our organization – in the way we function and in our attitude.

We work closely with each other to ensure that we meet the needs of our members. At OMERS, teamwork has resulted in greater efficiencies, superb investment returns and outstanding levels of service. We share ideas and knowledge and we support each other. Teamwork unites individual and group initiatives and is the key behind our success as one of Canada's leading pension plans.



LEFT – Human Resources is just one of the many teams working together at OMERS.

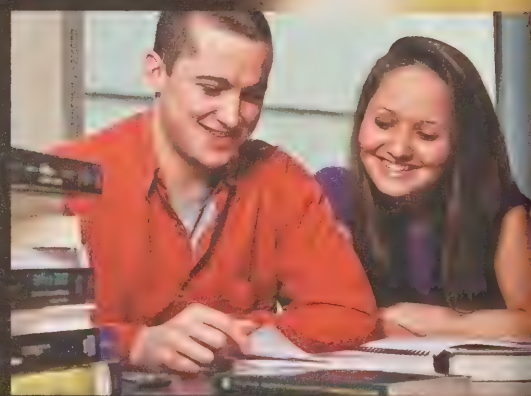
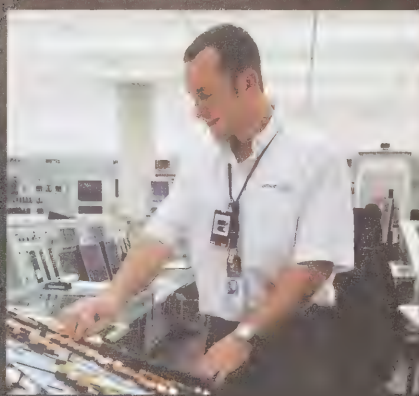
CENTRE – The Business and Information Technology team provides essential services and supports the infrastructure for OMERS.

RIGHT – Our service record is one of the best among public sector pension plans. Plan membership has grown and we're handling more requests for service and still exceeding our service targets.



Our members deserve a worry-free retirement. That's why performance is important to us.

Performance means delivering excellent service to members and ensuring strong investment returns. Our Pension Division, a leader in our industry, continues to explore new service options. And our investment professionals have built a growing portfolio of assets that consistently ranks among Canada's leaders when it comes to rate of return. We're committed to exceeding the expectations of our members when it comes to all areas of performance.



LEFT - The largest investment in the Borealis Infrastructure portfolio is the Bruce Power nuclear plant. OMERS has committed to provide funding to restart and refurbish four reactors, which will supply about 25 per cent of Ontario's electricity by 2013.

CENTRE - Oxford Properties is developing Watermark Place, an 11-storey, 530,000 square foot office building situated on the River Thames in London, England. Watermark Place is scheduled to be completed in the third quarter of 2009 and is a highlight of Oxford Properties' growing global investment platform.

RIGHT - OMERS Capital Partners invests in and manages our private equity interests, such as Nelson Education, Canada's leading provider of education solutions and publisher of textbooks.



This year's Annual Report marks a new milestone for OMERS.



It is the first to feature OMERS Administration Corporation and the Sponsors Corporation that was created by the new OMERS Act in 2006. My letter covers the responsibilities of the AC which I have had the privilege of chairing for the past two years. However, I believe that the presence of both organizations in this Annual Report clearly reflects the co-operation and teamwork that have characterized the past year and allowed the establishment of the SC and the implementation of our new governance structure to be seamless and effective.

Both boards, as well as AC management, have worked together to ensure that the organizational strengths that have earned OMERS a leadership position among Canadian pension plans not only remain intact but are improved under our new and independent self-governance model. It is these strengths that I wish to highlight as the AC Chair.

Our Strategy

The AC Board plays a critical oversight role in the development, execution and monitoring of the long-term investment strategy that we adopted in 2003. This strategy was designed to mitigate the peaks and valleys that public equity markets inevitably face over time

and ensure that our performance fully benefited from the expertise of our investment professionals in all areas. Our performance in 2007 demonstrates that this strategy is working – and working well.

The centrepiece of the strategy is a rebalancing of our asset allocation to allow for more private market investments. When carefully chosen, these types of investments generate strong, predictable returns over the long term. With 70 per cent of every pension cheque coming from investment returns, this stability and performance is essential. To oversee the day-to-day operations of our strategy, the AC has assembled a highly professional and experienced team of investment managers expert in real estate, private equity and

infrastructure investments, as well as public markets which continue to account for the majority of our investment assets.

The proof of an investment strategy's worth is long-term performance, and over the period since we implemented our 2003 plan, it has produced returns in every single year that have exceeded our performance benchmarks. In fact, in each of the last three years the Fund has ranked in the top quartile of all Canadian pension funds.

Another key objective of our strategy is to provide best-in-class pension services through our Pension Division, the main contact point for members and employers. We are consistently ranked among Canada's leaders in this area, and we continue to enhance our service capabilities for members.

Strengthening our governance

The AC is committed to – and has achieved excellence in – its Board governance practices and has developed positive relationships with all its stakeholders.

In August, the Financial Services Commission of Ontario (FSCO) released its report following a review of our processes during and preceding the purchase of Borealis Capital Corporation by OMERS. The report confirms what we said from the beginning – that there was no wrongdoing or misuse of pension fund money by anyone associated with the transaction. Our alternative asset investments in private equity, real estate and infrastructure – before and since 2004 – have been a success by any measure and have generated substantial cash flows that help to secure the pensions of our members and retirees. The full FSCO report can be found on our website at www.omers.com.

The FSCO report also examined our governance practices over the past decade and acknowledged that, in the past five years, we have implemented many industry-leading governance improvements, including the establishment of a standing Board Governance Committee, the creation of internal audit and legal departments and an internal compliance office, and the requirement that all Directors complete a director certification program. This is supplemented by a budget for further governance education for every Director as well as by regular internal information sessions with senior executives who provide in-depth analysis on different aspects of our activities.

In view of our commitment to improving our governance practices, we recently launched a governance reform project that seeks to ensure that we operate with industry leading standards and processes and responds to the recommendations of the FSCO report.

This project includes initiatives to define AC Board competencies, to establish clear Board and committee mandates, to define roles and responsibilities between the Board and management, to develop processes to effectively monitor management performance, and to provide a means of benchmarking and assessing the overall governance process itself, all in pursuit of a clearly defined governance vision and mission.

- **Governance Vision**

The AC Board will be publicly recognized as an industry leader in corporate and pension governance.

- **Governance Mission**

The purpose of governance is to ensure effective board and management decision-making through the use of processes and controls to ensure the Plan is administered in the best interests of the members and beneficiaries.

I wish to close my tenure as a Board member and as Chair by thanking those I have had the opportunity to work with:

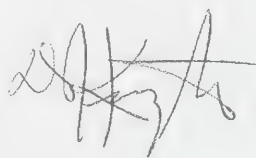
- Michael Nobrega and the senior management team, who have provided outstanding direction and leadership to our employees. We have taken a number of important steps, adopting and implementing our new strategy and undertaking the transition to self-governance. My thanks to Michael and his team.
- To my fellow Directors, I offer my sincere gratitude for their commitment and counsel. I would like to particularly acknowledge Frederick Biro who preceded me as Chair during 2004 and 2005 and who, like me, retired from the Board at the end of 2007.
- John Sabo, who joined the Board in 2001 and has chaired the Audit Committee and served as Vice Chair, was elected Chair effective January 1, 2008. Mr. Sabo is currently the Associate Director of Leading Services and the Treasurer of the Board for the York Catholic District School Board, and a Director and Vice-President of both the Ontario School Boards Financing Corporation and the Catholic School Boards Services Association. His personal history with OMERS extends back 23 years when he first joined as a member of the Plan.
- John G. Goodwin, a retired partner with the law firm of Osler, Hoskin & Harcourt LLP will replace Frederick Biro on the Board as the appointee of the Ontario Association of Police Services Boards. Mr. Goodwin is a Past Chairman of the Canadian Bar Association – Ontario Pension and Benefits Section, past President of the Canadian Pension & Benefits Institute, and immediate past chair of the Provincial Judges Pension Board.

- Eugene R. Swimmer has been appointed to fill my vacancy on the Board as a representative of the Police Association of Ontario. Dr. Swimmer is a professor of public policy and administration at Carleton University and is an acknowledged expert in public sector labour-management relations and compensation. In 2004, he received the Gérard Dion Award, the highest award offered by the Canadian Industrial Relations Association, for his outstanding contribution to the industrial relations profession.

I am confident that John Sabo, John Goodwin and Eugene Swimmer will help to ensure that the Board continues to fulfil its obligation to administer the Plan in the best interests of the members.

Finally, I would like to thank our employees – the people who dedicate themselves every day to ensuring that we continue to fulfil the pension promise to our members by earning superior investment returns and providing industry-leading pension services.

Over the past seven years, it has been my pleasure to serve our members as part of the OMERS organization. We are all part of one team, from top to bottom and from one division to the next, united by a desire to deliver on our pension promise with outstanding performance and service excellence, and an overriding commitment to the security of our members' pensions.



David Kingston
Board Chair



A strong team and a solid game plan served us well in 2007.

The year was highlighted by important new developments for OMERS. This was our first full year operating under the governance structure mandated by the new OMERS Act and we made a number of changes that strengthened our leadership team.

While our investment teams faced uncertainty in public equity markets, especially in the second half of 2007, the entire organization remained focused on delivering performance – in service to members and investment results – to ensure that the pension promise to our members is fulfilled.

Delivering on that promise means working as a team to achieve strong investment returns to secure current and future pensions, and to meet the pension service needs of our members and employers. We also undertook new initiatives in support of the SC, our new plan sponsor.

Results for 2007

Our rate of return in 2007 once again ranked the Fund in the top quartile of Canadian pension funds. Our total rate of return for 2007 was 8.7 per cent, beating our benchmark of 5.6 per cent, and was the direct result

of the expertise of our investment professionals.

The incremental value of return above the benchmark was more than \$1.4 billion, a total of \$4.2 billion for the last four years.

The real rate of return for 2007, after deducting inflation of 2.4 per cent, was 6.3 per cent, which exceeded our long-term real return funding requirement of 4.25 per cent.

Another direct result of our investment expertise is that we had no exposure to third party asset-backed commercial paper.

OMERS members and employers have come to expect exemplary service. In 2007, we met or exceeded all the targets we use to measure and compare our service to our peers. The result: we continue to rank among public sector pension leaders in service.

Investing effectively and globally

Our four investment entities made many significant transactions during the year, as well as managing operations and extending their global reach.

The five initiatives described immediately below are excellent examples of the opportunities we have developed with our experience, our wide network of investment contacts, and our reputation as a strong investment partner.

OMERS Capital Markets contributed to a new fund managed by BlackRock, one of the world's largest publicly traded investment management firms. Headquartered in New York, BlackRock manages assets of more than \$1.3 trillion on behalf of institutions and retail clients worldwide, through equity, fixed income, cash management and alternative investment products.

OMERS Capital Partners and Apax Partners acquired Cengage Learning (formerly Thomson Learning) including its Canadian operations, Nelson Education. Cengage and Nelson Education are leading providers of customized learning solutions for universities, government, corporations, and professionals around the world, and a publisher of academic textbooks.

MDS Diagnostic Services, acquired by Borealis Infrastructure, launched a Canada-wide re-branding, changing its name to LifeLabs. With over 50 years of experience, LifeLabs delivers more than 50 million laboratory tests annually to over 10 million patients. The LifeLabs name reflects the important role that medical laboratories have in diagnoses and healthcare decisions that help improve a patient's quality of life.

Two real estate transactions made by Oxford Properties highlight the investment opportunities that bring long-term benefits to our members. Centennial Place, a two-tower, 1.2 million square foot office complex in Calgary, Alberta is being entirely developed and underwritten by Oxford Properties and is scheduled for completion by the fall of 2009.

Oxford Properties is also developing Watermark Place, an 11-storey, 530,000 square foot office building situated on the River Thames in London, England. Watermark Place is scheduled to be completed in the third quarter of 2009 and is a highlight of Oxford Properties' growing global investment platform.

Our strategy remains the key to the future

Our strategy includes cross-organizational, active management of our investments. An important element of this strategy is our asset mix initiative, designed to increase our private market investment holdings, reduce volatility, and secure long-term stable investment returns. This creates a better balance between our private market investments and the more volatile public market investments, and between our long-term liabilities and long-term returns.

In 2007, we increased our long-term private markets asset mix target to 42.5 per cent of the Fund's net investment assets and decreased our public market target to 57.5 per cent. Asset classes such as private equity, infrastructure and real estate are expected to produce strong and stable returns over time. At the end of 2007, the Fund's asset mix exposure was 70.2 per cent to public market investments and 29.8 per cent to private market investments, compared with 75.8 per cent and 24.2 per cent respectively at the end of 2006.

OMERS proposes changes to pension investment regulations

As our pension payments grow, the importance of positive annual cash flow also grows, underscoring our need for greater access to – and control over – our investments to ensure stable, long-term returns. In 2008, for the first time outside of contribution holidays, our pension payments are expected to exceed contributions to the Plan. Long-term returns from investments are required to cover this increasing demand. OMERS urgently needs the Ontario government to lift the investment rule restricting pension funds from owning more than 30 per cent of the voting shares of a company, which, among other constraints, limits our ability to control dividend distributions from our investments.

In an October 2007 presentation to the Ontario Expert Commission on Pensions, OMERS showed that these restrictions on pension plans limit our ability to be competitive, hinder our interest in owning Canadian companies, and ultimately impact our members and retirees by effectively reducing our investment returns.

With our expertise and long-term record of success, OMERS and other large public sector pension plans have earned the right to be treated with regulatory confidence by lawmakers. Other major global jurisdictions, including the U.S., the U.K. and Australia, operate under principle-based legislation. OMERS also recommended that public sector pension plans be exempt from solvency valuations as the likelihood of plan wind-up is negligible. Our presentation to the Expert Commission is on our website at www.omers.com

Meeting the needs of members

Our Pension Division had three key objectives for 2007: ensuring that pension services meet the expectations of members and employers; assisting the SC in their first full year of operations and establishing the Supplemental Plan. We met all service targets and continued effective dialogue with our stakeholders, which helps us plan for service enhancements and expansion. The SC has successfully completed its first full year of operations with assistance from us in areas such as funding, technical advice and logistical support. We are also on target to launch the Supplemental Plan on July 1, 2008, having fulfilled the requirements for plan text, funding policy and costing framework.

Teamwork and performance

In 2007 we demonstrated our ability to work as a team – internally with each other and among our various divisions, with our new sponsor, the SC, and as a preferred investment partner with major institutional investors.

I would like to thank the AC Board for their support and our employees for their commitment during the past year. Our focus is on performance in all areas of our operations and our goal is to remain among Canada's pension leaders. I look forward to 2008 as we work together to extend OMERS record of achievement.

Sincerely,



Michael Nobrega
President and Chief Executive Officer

Management's Discussion and Analysis

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OMERS Administration Corporation (the "AC") is the administrator of the primary pension plan (the "OMERS Primary Pension Plan" or the "Plan") as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act") and the Retirement Compensation Arrangement ("RCA") associated with the Plan. The AC is responsible for investing the funds of the Plan and the RCA (the "Fund"). In addition, under the OMERS Act, the Ontario Municipal Employees Retirement System ("OMERS") represents the combined retirement system comprised of OMERS Sponsors Corporation (the "SC") which is the Plan sponsor, the AC, the Plan and the RCA. This management's discussion and analysis is the responsibility of management of the AC ("management") and contains management's analysis of the AC's financial condition, operational results and the environment in which it operates as of February 21, 2008. This section should be read in conjunction with the Consolidated Financial Statements. The Audit Committee and Board of Directors of the AC (the "AC Board") have reviewed and approved the contents of this section.

In addition to historical information, this section contains forward-looking statements with respect to management's strategy, objectives, outlook and expectations. Forward-looking statements are preceded by words such as "believe", "expect", "may", "could", "intend", "continue" and "estimate". By their very nature, those statements are subject to risks and uncertainties, which may cause actual results to differ from the expectations expressed in the forward-looking statements. Forward-looking statements made in this section represent management's views at the date of this report and the AC does not undertake to update or revise any forward-looking statements as a result of new information, future events, or otherwise.

Vision and Strategy

Vision

The OMERS Administration Corporation has one clear and overriding objective: paying the pensions of our current and our future retirees. We work as a team in pursuit of an outstanding performance level that will enable us to meet this objective including:

- Generating sufficient returns through the investment of the Plan's assets; and
- Providing pension administration services that meet our members' needs, the most important of which is to pay monthly pensions.



Our vision focuses on four key areas which are integrated into our strategies and decisions:

Lead

Be the leader in the pension industry.

We want to be nothing less than the leader in the pension industry. We will earn this status if we rank in the top quartile of investment performance and if we set the industry standard for service to members and employers.

Perform

Provide first-in-class investment management.

We recognize the importance of earning superior returns to keep pensions secure.

Serve

Deliver superior pension services to our members and employers.

Services to Plan members are one of our top priorities and one of our key strengths.

Grow

Grow by attracting investment partners and employers through our leadership.

Growth is an objective not for its own sake but because it will expand the range and size of investment opportunities we can pursue and allow us to improve our services for the benefit of all members.

Investment Strategy

In order to meet our pension obligations, the Plan must earn a 4.25 per cent real return annually (that is, before the impact of inflation) on its investments over the long term.

Our investment strategy is based on an asset mix policy that will allow us to meet or exceed the long-term return requirements with an acceptable level of risk. In determining the asset mix policy for the Fund we identify the asset classes that collectively are most likely to meet our pension obligations within the Plan's risk tolerance. We weigh the risk/reward profile of each asset class to ensure that we are reasonably compensated for risk and we invest in different asset classes and geographic markets to disperse risk and reduce the volatility of total returns. We invest domestically and internationally in interest bearing investments, real return bonds, public equities, private equities, infrastructure and real estate assets, often in combination with conservative use of derivative financial instruments which are exchange traded and backed by other investment assets. We use derivative financial instruments to give us exposure to equity markets and manage our asset mix. (Derivative financial instruments are discussed on page 29 of this Annual Report.)

We believe that over the long term, an asset mix with greater exposure to private market investments is better positioned to generate strong, predictable returns and consistent cash flow with reduced risk to meet the Plan's funding requirements. As a result, our investment strategy over the long term is to reduce our asset mix exposure to public market investments – such as public equities and interest bearing investments – to approximately 57.5 per cent of the Plan's net investment assets with a corre-

sponding increase in our asset mix exposure to private market investments – such as private equities, infrastructure and real estate – to approximately 42.5 per cent of net investment assets.

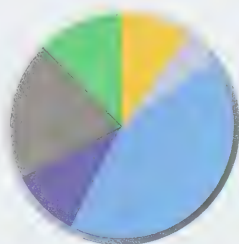
During 2007, the asset mix strategy was reviewed and the AC Board approved an increase in the Fund's target exposure to infrastructure investments by 5 per cent with a corresponding decrease in interest bearing investments. This increased the long-term asset mix target for private markets from 37.5 per cent to 42.5 per cent and decreased the target for public market investments from 62.5 per cent to 57.5 per cent. The Plan's asset mix policy is supported by foreign currency management, derivatives and absolute return strategies.

Since 2003, the Plan has reduced its exposure to public equities and interest bearing investments from 82.2 per cent to 70.2 per cent at the end of 2007, and increased our exposure to private market investments from 17.8 per cent to 29.8 per cent at the end of 2007. Our investment professionals are managing this shift by constantly monitoring the asset mix and making the necessary adjustments to investments to achieve the target investment levels in a prudent manner, subject to market conditions and investment opportunities.

Over the long term, investment returns on the Plan's assets are expected to fund approximately 70 cents of every dollar paid in benefits with the balance coming from employee and employer contributions.

LONG-TERM ASSET MIX TARGETS

Interest Bearing	10.0%
Real Return Bonds	5.0%
Public Equity	42.5%
Private Equity	10.0%
Infrastructure	20.0%
Real Estate	12.5%



Performance vs. Objectives

Our most important objective as a management team is to fulfil the pension promise to our current and future retirees. To achieve this objective our goal is to excel in our investment performance by outperforming the markets in which we invest. In addition, we strive to excel in the quality of service provided to our members. (Service standards are discussed on page 38 of this Annual Report.)

Investment Performance Overview

We invest in several asset classes and in several markets which are described more fully beginning on page 26 of this Annual Report. Returns for 2007 and 2006 were as follows:

	2007		2006	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Public Markets	2.6%	1.5%	16.2%	15.5%
Private Equity ⁽ⁱ⁾	18.6%	11.6%	17.7%	10.8%
Infrastructure ⁽ⁱ⁾	12.4%	9.9%	14.0%	10.8%
Real Estate ⁽ⁱ⁾	22.9%	7.8%	26.2%	9.2%
Total	8.7%	5.6%	16.4%	13.7%

(i) Returns for private equity, infrastructure and real estate include the results of the Fund's currency hedging program related to the respective asset classes.

The Fund earned an 8.7 per cent total rate of return in 2007, compared with a 16.4 per cent total rate of return in 2006. While the total return is below last year's return, our return is in the top quartile of performance. After allowing for inflation of approximately 2.4 per cent, the real rate of return was 6.3 per cent. Net investment income totaled \$3,938 million in 2007, compared with \$6,530 million a year earlier.

Net assets in 2007 include net investment assets of \$52,187 million, net pension related assets of \$129 million less the value of administered funds of \$800 million.

Net Assets

(MILLIONS)	2007	2006
Net investment assets	\$ 52,187	\$ 48,221
Net pension amounts receivable	129	125
Due to administered funds	(800)	(741)
	\$ 51,516	\$ 47,605

In accordance with guidance of the Canadian Institute of Chartered Accountants (the "CICA"), the AC changed its policy for the treatment of transaction costs incurred on acquisition of investments. As discussed in Note 2 of the Consolidated Financial Statements on page 57 of this Annual Report, these costs are now recorded in investment income as incurred. The CICA required retrospective adoption of this practice without restatement of prior years; as such the 2007 opening net assets have been reduced by \$37 million to reflect acquisition costs not included in prior years' investment income.

After accounting for the restatement of net assets at the beginning of the year, net assets grew by \$3,948 million, or 8.3 per cent, to \$51,516 million in 2007 compared with an increase of \$6,540 million, or 15.9 per cent in 2006. The increase in 2007 was due to strong performance in real estate, infrastructure and private equity investments; however, this was tempered by lower returns in volatile public market investments.

Changes in Net Assets

(MILLIONS)	2007	2006
Net assets, beginning of year	\$ 47,605	\$ 41,065
Change in accounting policy for transaction costs	(37)	–
Net assets, beginning of year restated	47,568	41,065
Changes due to investment activities	3,938	6,530
Changes due to pension activities	10	10
Net assets, end of year	\$ 51,516	\$ 47,605

The Plan funding requirement is based on earning a real return plus inflation. For 2007, this represented a real return of 4.25 per cent plus inflation of approximately 2.4 per cent for a return of approximately 6.6 per cent. The four-year and the ten-year funding requirements shown in the chart below are an average of the annual funding requirements over those time periods.

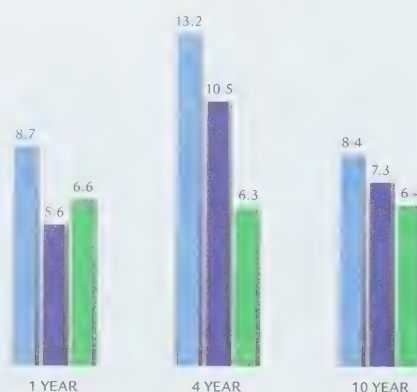
Investment returns over the past ten years have exceeded the Plan funding requirement; and in 2007 the Plan has returned to an actuarial surplus position. The factors contributing to the funding surplus are discussed under the Plan Funding Status section on page 20 of this Annual Report.

We measure the performance of each of our public market investment asset classes against a market benchmark and our private market investments against an absolute return set at the beginning of each year. We develop a benchmark for total investment activities by aggregating and weighting the individual benchmarks for each asset class. Our benchmarks are reviewed and approved by the AC Board. Our goal is to earn returns that exceed these benchmarks. When we exceed the benchmark, our investment managers are adding value to the portfolio above the targeted return for the asset class or the return generated by the markets through passive investments. For the year ended December 31, 2007, the Fund's total return

RATE OF RETURN, BENCHMARK RETURN AND FUNDING REQUIREMENT

(%)

- Rate of Return
- Benchmark
- Funding Requirement



was 8.7 per cent, exceeding the aggregate benchmark of 5.6 per cent by 310 basis points which represents value added of approximately \$1.4 billion. As illustrated in the graph below the Fund has frequently exceeded its benchmark; over the last four years the value added from actual fund returns exceeding the benchmark has totaled approximately \$4.2 billion.

The benchmarks used by the Fund in 2007 are based primarily on (i) externally computed indices that reflect the results of markets in which the Fund invests or (ii) an expected absolute return. The benchmarks used are as follows:

ASSET CLASS	BENCHMARK
Interest bearing	Blended Scotia Capital 31 day Treasury Bill Index and Scotia Capital Universe
Real return bonds	Scotia Capital Real Return Bond Index
Canadian public equities	S&P/TSX Composite Index
Non-Canadian public equities	Blended hedged FTSE All World Index excluding Canada and U.S., hedged FTSE All Cap U.S. Index and hedged custom Derivative Index
Private equity, Infrastructure, Real estate	Absolute return set at the beginning of each year based on operating plans approved by the AC Board.

ANNUAL RATE OF RETURN AND BENCHMARK

(%)

- Rate of Return
- Benchmark



Corporate

Pension Plans

OMERS Primary Pension Plan is a multi-employer pension plan whose members consist primarily of employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. The Plan is a contributory defined benefit pension plan financed by equal contributions from participating employers and employees as well as by investment earnings of the Plan. The Plan has over 380,000 members.

The Plan's pension payments are integrated with the Canada Pension Plan as the benefit formula includes a bridge benefit paid to age 65. Including this bridge benefit, the benefits paid under the Plan are calculated by multiplying two per cent of the member's average annual earnings for the highest paid five consecutive years ("pensionable earnings"), times years of credited service, to a maximum of 35 years. At age 65 the bridge benefit of 0.675 per cent of the pensionable earnings (or 0.675 per cent of the average of the yearly maximum pensionable earnings (YMPE) in the year of retirement and the four preceding years, if this amount is less than 0.675 per cent of the pensionable earnings), is subtracted for integration with the Canada Pension Plan. Inflation protection, survivor and disability benefits and early retirement options are also excellent features of the Plan.

In addition to the Plan for all members, the AC maintains a full earnings pension plan through the use of a RCA, which provides pension benefits for members whose benefits under the Plan are limited by ceilings imposed by the *Income Tax Act*. The RCA provides a means to enable retirement savings and contributions on members' total earnings. As the RCA is not a registered plan, a 50 per cent refundable tax is levied on all contributions made to the RCA as well as on all investment income and realized investment gains. Such tax is held by the Canada Revenue Agency and does not earn investment income for the RCA. It is refunded to the RCA on the basis of one dollar for every two dollars of benefits paid out. The RCA is consolidated in the AC's financial statements and is accounted for separately from the Plan. Net assets of the RCA were \$37 million at December 31, 2007 and were \$29 million at December 31, 2006. The RCA financial statements are set out in Note 8 to the AC's Consolidated Financial Statements on page 70 of this Annual Report.

The OMERS Act requires the AC to establish and administer a Supplemental Plan to provide optional benefits for members of the police sector, fire fighters and paramedics. The SC can establish other Supplemental Plans for other members of the Plan. Supplemental Plans are stand-alone registered pension plans which offer benefits not available in the OMERS Primary Pension Plan and are not funded from the Plan. There are no Supplemental Plans currently in place; however, as required by the OMERS Act, the first Supplemental Plan for members of the police sector, fire fighters and paramedics is to be established by July 1, 2008. The Province of Ontario is providing the AC with funding to pay for the start-up costs of establishing this first Supplemental Plan as such expenses can not be paid by the Plan.

Plan Funding Status

In 2007, the Plan returned to an actuarial surplus position primarily due to investment returns that have exceeded the assumed nominal rate of return since 2003.

Each year an independent actuary determines the Plan's funded status by comparing the actuarial value of invested assets to the estimated present value of all pension benefits that members have earned to date. On December 31, 2007, the estimated actuarial accrued pension obligation for all members (including survivors) of the Plan was \$46,830 million, compared with \$44,167 million a year earlier. The increase of \$2,663 million is primarily due to interest accrued on the pension benefit obligation, plus new benefits accrued during the year, partially offset by benefits paid in 2007 and experience gains and losses and changes in actuarial methods and assumptions. The Plan had an actuarial value of net assets of \$46,912 million at the end of 2007, compared with \$41,785 million in the prior year. The resulting funding surplus was \$82 million as at December 31, 2007, an increase of \$2,464 million compared with a funding deficit of \$2,382 million as at December 31, 2006.

Current Year Change in Surplus/(Deficit)

(MILLIONS)

	2007	2006
OMERS Primary Pension Plan		
Deficit, beginning of year	\$ (2,382)	\$ (2,784)
Increase in net assets available for benefits ⁽ⁱ⁾	3,903	6,530
Change in actuarial smoothing adjustments	1,224	(3,084)
Increase in actuarial value of net assets available for benefits	5,127	3,446
Less: increase in accrued pension benefit obligation	(2,663)	(3,044)
Surplus/(Deficit), end of year	\$ 82	\$ (2,382)

(i) For 2007, includes the impact of the change in accounting policy for transaction costs.

The funded ratio (actuarial value of net assets divided by accrued pension benefit obligation) at December 31, 2007 is 100.2 per cent compared with 94.6 per cent a year earlier.

In arriving at the actuarial surplus, changes in the fair value of net assets above or below the long-term nominal actuarial rate of return assumption are deferred and amortized over five years to "smooth out" the peaks and valleys in an individual year's investment returns caused by market volatility. Smoothing is a common practice accepted by the actuarial profession and pension regulators to reduce the effect of short-term market fluctuations on pension plan funding. The annual actuarial valuation adjustment is based on the difference between the current year's actual returns and the long-term return expectation (expected inflation plus 4.25 per cent, equivalent to 6.75 per cent in 2007) adjusted for the amortization of equivalent amounts from the four preceding years. This approach is in keeping with the long-term nature of the Plan and assists in maintaining stable contribution rates.

Investment returns were greater than the long-term actuarial rate of return assumption from 2003 to 2007 as the Fund's investments achieved strong overall returns over this period. As a result, as at December 31, 2007 the market value of Plan assets was \$51,479 million compared with the smoothed actuarial value of \$46,912 million. The resulting actuarial valuation adjustment account represents unrecognized net gains of \$4,567 million which will be recognized in actuarial assets over the next four years, with \$2,052 million to be recognized in 2008.

On a market value basis, excluding smoothing adjustments, the net assets of the Plan exceed the accrued benefit obligation by \$4,649 million.

Funding Outlook

Pension plan funding is made up of two components – the amount required to fund the cost of benefits earned by active members in respect of the current year, which is the normal actuarial cost and the amount required to eliminate any funding deficits that have emerged.

Under Ontario provincial regulations, a pension plan must file an actuarial valuation report at least once every three years, and at that time must take measures to eliminate any going concern funding deficit over a period not to exceed 15 years through increased contributions. The Plan's December 31, 2004 actuarial valuation was filed with the Ontario pension regulator and, based on a funding deficit of \$963 million at that time, the AC Board implemented an increase in contribution rates which averaged 0.6 per cent of a member's earnings for both employers and members on January 1, 2006. This was equivalent to a 9.0 per cent increase in the amount of contributions.

The Plan's normal actuarial cost, the current contribution rates and the funded status will be reviewed by the SC prior to the next government filing which must be filed by September 30, 2008 for the year ended December 31, 2007.

The 2007 contribution rate for Plan members with a normal retirement age of 65 was 6.5 per cent of earnings up to \$43,700 and 9.6 per cent for earnings above that level. For members with a normal retirement age of 60, the 2007 contribution rate for earnings up to \$43,700 was 7.9 per cent and 10.7 per cent for earnings above that level.

The 2008 contribution rate for Plan members with a normal retirement age of 65 will be 6.5 per cent of earnings up to \$44,900 and 9.6 per cent for earnings above that level. For members with a normal retirement age of 60, the 2008 contribution rate for earnings up to \$44,900 will be 7.9 per cent and 10.7 per cent for earnings above that level.

Employer contributions equal member contributions under the Plan.

Actuarial Assumptions

In calculating the funded position and the ongoing normal actuarial cost for active members, the actuary makes various demographic and long-term economic assumptions. Demographic assumptions are used to project the future benefits payable to members and beneficiaries, including assumptions about mortality rates, termination rates, and patterns of early retirement. Each of these assumptions is updated periodically, based on a detailed review of the experience of the Plan and on the expectations for future trends. Economic assumptions about future investment returns, i.e. the discount rate, and assumptions about inflation and member salary increases affect both the projected benefits and the present value of those future benefits. The actuary's major economic assumptions included in the going-concern funding valuation as at December 31, 2007, which were approved by the AC Board, are summarized as follows:

- *Inflation Rate*

The Plan has used an inflation rate assumption of 2.5 per cent per annum for future years in the calculation of the anticipated salary increases, future indexing adjustments, and as a component of the nominal discount rate for estimating liabilities. Any variation in the actual inflation rate from this assumption will result in experience gains or losses to the Plan.

- *Discount Rate*

The Plan's annual nominal rate of return and discount rate for future years is assumed to be 6.75 per cent, consistent with 2006. Taking into account the 2.5 per cent assumed inflation, this results in a real investment return assumption, based on the Fund's asset mix, of 4.25 per cent, consistent with 2006. A decrease/increase of 50 basis points in the real discount rate would result in an approximate increase/decrease of 8.0 per cent or approximately \$3,700 million in the total actuarial liabilities of the Plan.

The real investment return assumption used in 2007 is unchanged from that used in 2006. It includes a conservative margin to account for potential adverse investment experience so that over the long term there is a greater chance of actuarial gains than losses arising from the Plan's assets. This assumption includes an estimate of the returns expected to be earned over the long term on the Plan's assets over and above fixed income returns, based on the current asset mix. In comparison to other public sector plans, our asset mix has a higher proportion of non-fixed income investments. In addition, the Plan has a lower ratio of retired members to active members compared to other public sector plans. This results in a low fixed income component in the asset mix and results in a relatively higher real discount rate.

- *Salary Increases*

The estimated value of the actuarial liability includes an assumption about future increases in the salaries of active members. The salary increase assumption uses an age-based scale which allows for increases in productivity as well as merit and promotion-related earnings increases. For members with normal retirement age of 60, the assumption also includes service-related increases. The assumed average increase, including assumed inflation, was 4.0 per cent at the December 31, 2007 valuation, unchanged from 4.0 per cent used for the December 31, 2006 valuation.

Retirement Compensation Arrangement

The RCA is funded using a modified pay-as-you-go approach, where inflows from contributions and investment income are used to pay the current benefits to members. The excess of current contributions and investment income over current benefit payments are accumulated as a reserve for future years' benefit payments. As a consequence of the modified pay-as-you-go funding policy adopted for the RCA, its assets will remain small relative to its liability. However, the AC's actuary estimates

that if contributions to the RCA continue, the annual cash inflow will be sufficient to cover benefit payments and the RCA's assets will continue to grow for the short to medium term. A relatively small increase in the number of terminations and retirements at higher income levels, however, can increase actual benefit payments from, and decrease actual contributions to, the RCA.

The actuarial liability for the RCA increased from \$172 million in 2006 to \$236 million at the end of 2007 due to new benefits earned in the year; interest on the accrued benefit obligation; and experience gains/losses and changes in actuarial assumptions and methods; offset by pension and lump sum payments made in the year. The RCA had an estimated funding deficit of \$199 million at December 31, 2007 compared with a deficit of \$143 million last year as shown below:

Current Year Change in Deficit

(MILLIONS)	2007	2006
Retirement Compensation Arrangement		
Deficit, beginning of year	\$ (143)	\$ (138)
Increase in net assets	8	10
Less: increase in accrued pension benefit obligation	(64)	(15)
Deficit, end of year	\$ (199)	\$ (143)

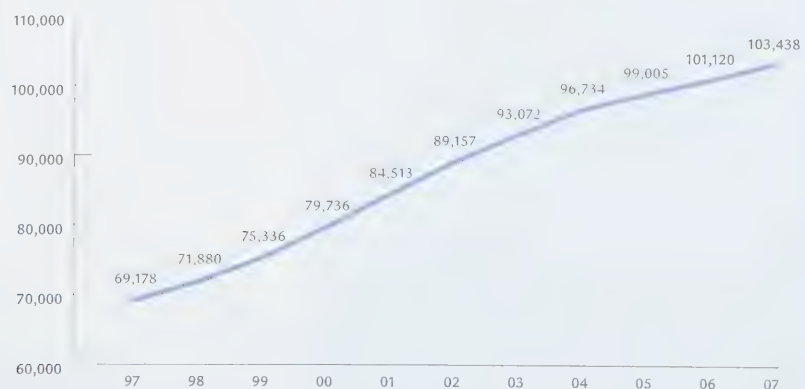
Pension Benefits and Contributions

In 2007, the Plan ended the year with over 103,000 retired members and survivors receiving pension benefits. Benefits paid from the Plan in 2007 were \$1,828 million, an increase of \$88 million over 2006 while benefits paid from the RCA in 2007 were \$5 million compared with \$4 million in 2006. The increase reflected new retirements, the adjustment of benefits for inflation and higher pension values for new retirees compared with those already receiving benefits. In addition, commuted value and transfer payments to other plans increased by \$27 million over 2006.

Contributions to the Plan in 2007 were \$1,875 million compared with \$1,780 million in 2006. The increase reflects a larger number of active members and increased members' salaries.

Contributions to the RCA in 2007 were \$11 million, slightly lower than the \$12 million received in 2006.

GROWTH IN NUMBER OF PENSIONERS



Plan Asset Mix

As discussed in the investment strategy section on page 16, one of our corporate strategies is to shift the asset mix to 57.5 per cent public market investments and 42.5 per cent private market investments over the long term. As illustrated in the table below, in 2007 we made progress toward our long-term asset mix targets. At the end of 2007 private market investments comprised 29.8 per cent of our asset mix compared with 24.2 per cent at the end of 2006. As illustrated in the table below, the market value of our net investment assets with exposure to private equity, infrastructure and real estate grew to \$15,546 million, an increase of \$3,890 million, or 33.4 per cent over 2006. We will continue our disciplined investment approach over the next few years as we move closer to our long-term targets.

Asset Mix – Actual vs. Target

	Actual		Long-Term Target
	2007	2006	
Public Markets			
Interest bearing ⁽ⁱ⁾	18.2%	17.6%	10.0%
Real return bonds	3.9%	4.1%	5.0%
Public equity	48.1%	54.1%	42.5%
	70.2%	75.8%	57.5%
Private Markets			
Private equity	7.4%	6.0%	10.0%
Infrastructure	9.9%	7.9%	20.0%
Real estate	12.5%	10.3%	12.5%
	29.8%	24.2%	42.5%

(i) Includes short-term deposits, bonds and debentures, mortgages and private debt.

In determining the Fund's asset mix exposure, the market value of cash and other investment related assets and liabilities included in net investment assets per the Consolidated Financial Statements are allocated to the individual asset classes. In addition, to reflect asset class responsibility, derivative exposure and other items are allocated to arrive at the Fund's ultimate exposure by asset class. Net investment assets based on the holdings per the Consolidated Financial Statements and after all allocations are as follows:

Asset Mix – Exposure

	2007			2006		
	Holdings	Exposure	Asset Mix	Holdings	Exposure	Asset Mix
(MILLIONS)			%			%
Public Markets						
Interest bearing ⁽ⁱ⁾	\$ 19,468	\$ 9,471	18.2%	\$ 19,122	\$ 8,476	17.6%
Real return bonds	2,039	2,044	3.9%	1,969	1,977	4.1%
Total interest bearing	21,507	11,515	22.1%	21,091	10,453	21.7%
Public equity	21,784	25,126	48.1%	22,442	26,112	54.1%
	43,291	36,641	70.2%	43,533	36,565	75.8%
Private Markets						
Private equity	3,608	3,838	7.4%	2,951	2,876	6.0%
Infrastructure	8,412	5,166	9.9%	5,585	3,833	7.9%
Real estate	10,904	6,542	12.5%	8,541	4,947	10.3%
	22,924	15,546	29.8%	17,077	11,656	24.2%
Investment related assets	1,001	–	–	699	–	–
Investment related liabilities	(15,029)	–	–	(13,088)	–	–
Net investment assets	\$ 52,187	\$ 52,187	100.0%	\$ 48,221	\$ 48,221	100.0%

(i) Includes short-term deposits, bonds and debentures, mortgages and private debt.

Long-Term Debt

The AC has maintained a “AAA” credit rating from leading credit rating agencies. This has enabled us, where appropriate, to obtain debt financing at preferred rates to support our investment strategy. Debt outstanding through our real estate operations at December 31, 2007 includes \$1,022 million of debentures, \$1,142 million of commercial paper as well as \$1,293 million in secured and unsecured debt. In addition, our infrastructure portfolio is financed with \$3,426 million in secured and unsecured debt. Infrastructure debt increased by \$1,782 million in 2007 due largely to the addition of secured debt on certain infrastructure investments.

Corporate Expenses

Investment management expenses were \$201 million in 2007, compared to \$169 million in 2006. The increase of 18.9 per cent is primarily related to increased salaries and benefit costs and higher third party investment management costs as we raised our exposure to private equity funds. As a percentage of year-end net investment assets, total investment expenses increased in 2007 to 0.39 per cent from 0.35 per cent in 2006.

Pension administrative expenses were \$43 million for the year, compared with \$38 million for the previous year, an increase of 13.2 per cent. This increase is primarily due to higher salaries and benefits costs which resulted from increased corporate governance measures taken in 2007.

Enterprise Risk Management

In 2007, we implemented a more rigorous Enterprise Risk Management program (“ERM”) to enhance our overall governance framework. The ERM program is intended to identify and manage risk on an integrated basis; to apply consistent risk standards, concepts and policies across the organization; and to make the concept of risk assessment and management an integral and sustainable part of business operations. The ERM program is based on the Enterprise Risk Management-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (“COSO”).

The AC maintains systems of internal controls that are designed to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. The internal controls are reviewed by Internal Audit to ensure they are appropriate and operating effectively. In 2007, the AC commenced an internal review of our internal controls over financial reporting and disclosure controls using the Internal Control – Integrated Framework issued by COSO. This initiative is intended to enhance our overall governance framework and is consistent with our commitment to strong accountability.

The Audit Committee oversees the ERM program and receives regular communications from management on the status of the program and the risks identified by the program.

Public Market Investments

A portfolio positioned
to capture growth
and income opportunities

OMERS Capital Markets (OCM) manages our public market investments, which include Canadian and non-Canadian investments in bonds, other interest bearing assets and publicly traded equities. These investments are often made in combination with a variety of derivative financial instruments. Over the last three years, the rate of return on our public market investments has exceeded the benchmark each year.



70.2%
ASSET MIX
EXPOSURE
AS AT
DEC. 31/07

In 2007, Canadian and non-Canadian equity returns declined sharply compared to 2006; however, the investment expertise of OCM's investment professionals allowed the Fund to earn an overall return exceeding the benchmark for the year. The return on public market investments, excluding the impact of the Fund's currency hedging, was 2.6 per cent compared with a benchmark of 1.5 per cent and a return of 16.2 per cent in 2006. In 2007, public market investments generated net investment income of \$1,713 million compared with \$4,870 million a year earlier. The decrease from the prior year is primarily attributable to significantly lower returns in Canadian and non-Canadian public equity markets. In 2007, our Canadian public equities returned 12.8 per cent compared with 21.3 per cent in 2006, while our non-Canadian public equities returned 0.5 per cent compared with 20.0 per cent in 2006 (including the impact of our currency hedging program).

Interest Bearing Investments

Interest bearing investments provide low-risk returns that offset the more volatile nature of publicly traded equities. As a result they are a natural fit for a pension plan.

Interest bearing investments, excluding real return bonds, produced income before investment management expenses of \$580 million, an increase of \$66 million or 12.8 per cent compared with 2006. The return for interest bearing investments, excluding real return bonds, was 4.7 per cent compared with 3.7 per cent for the benchmark and 4.7 per cent a year earlier. The return of 1.0 per cent over the benchmark is primarily due to favourable sector positioning, general underweighting of the corporate sector in the portfolio, and OCM's successful anticipation of interest rate and yield curve changes in both Canada and U.S. Another direct result of OCM's investment expertise is that the Fund had no exposure to third party asset-backed commercial paper. Real return bonds produced income of \$33 million, an increase of \$82 million over 2006 and had returns of 1.6 per cent, consistent with the benchmark of 1.6 per cent and an increase compared with the -2.9 per cent return in 2006.

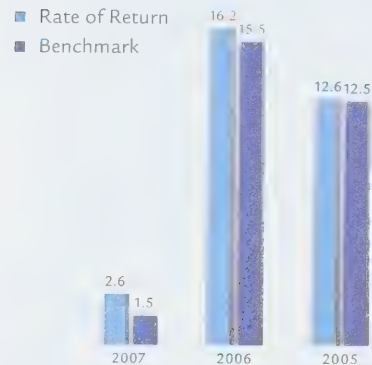
RETURNS AND BENCHMARKS

2.6% *The overall public market investments return excluding the impact of currency hedging in 2007 was 2.6% compared with a benchmark of 1.5%.*

	2007		2006	
	Rate of Return	Benchmark	Rate of Return	Benchmark
Interest bearing	4.7%	3.7%	4.7%	4.1%
Real return bonds	1.6%	1.6%	-2.9%	-2.9%
Canadian public equities	12.8%	9.8%	21.3%	20.2%
Non-Canadian public equities ⁽ⁱ⁾	0.5%	0.5%	20.0%	19.3%

(i) Returns for non-Canadian public equities include the results of the Fund's currency hedging program. For 2007 excluding the results of the currency hedging program the rate of return was -5.6 per cent and the benchmark was -5.5 per cent compared to a rate of return of 21.9 per cent and a benchmark of 21.1 per cent for 2006.

RATE OF RETURN AND BENCHMARK (%)



The modest increase in the return of real return bonds and related income was due to a lower increase in real interest rates in 2007 compared with 2006.

At December 31, 2007, interest bearing investments totaled \$21,507 million and consisted of federal bonds, provincial bonds, mortgages with a mix of commercial, industrial and multi-residential loans, real return bonds issued by governments, corporate bonds of institutional investment grade, private debt and short-term cash equivalent securities. Of this total, \$9,471 million was invested with exposure to bonds and debentures, mortgages, private debt and money market and other short-term investments; and \$2,044 million was invested with exposure to real return bonds. In addition, \$3,358 million represented assets backing derivatives programs that provide exposure to public equity markets and \$6,634 million related to cash collateral received as part of securities lending transactions and amounts allocated to other asset categories.

In the past 10 years, interest bearing investments, excluding real return bonds, have earned an annualized return of 6.7 per cent, including capital gains, due in part to the declining interest rate environment.

Significant Public Market Investments

- Government of Canada
- Interest Bearing Securities
- Royal Bank of Canada
- Suncor Energy
- Potash Corporation
- Encana Corporation
- The Toronto-Dominion Bank

Public Equities

At December 31, 2007, the Fund had \$10,017 million invested in Canadian public equities and \$11,767 million in non-Canadian public equities including both actively managed and non-derivative, quantitatively managed portfolios. Included in the non-Canadian public equities are \$867 million of assets in absolute return and other long-short strategies. Exposure to public equities also includes \$3,422 million representing the market value of non-equity assets backing equity derivatives and the net allocation of -\$80 million of investment related liabilities less cash and short-term investments and investment related assets.

Public equity investments generated income before investment management expenses of \$1,201 million comprised of income of \$1,190 million from the Canadian market and \$11 million from global markets. Canadian public equities plus Canadian equity derivative exposure earned a return of 12.8 per cent for the year, compared with a benchmark return of 9.8 per cent and a 21.3 per cent return in 2006. Non-Canadian public equities and non-Canadian equity derivative exposure, including the impact of our currency hedging program, earned a return of 0.5 per cent in 2007, compared with 0.5 per cent for the benchmark and a 20.0 per cent return in 2006. Although mitigated by our currency-hedging program, the non-Canadian public equity return was impacted by the strengthening in value of the Canadian dollar against foreign currencies as the Canadian dollar appreciated against all major currencies, including the

British pound, the yen, the euro and the U.S. dollar. These currencies comprise approximately 85 per cent of the Fund's foreign currency exposure before the impact of hedging.

Actively Managed Equity Portfolios

Actively managed Canadian equity investments totaled \$9,062 million in 2007 compared with \$8,090 million in 2006.

OCM's investment professionals are value investors who buy the securities of well-managed, profitable companies that can produce reliable long-term returns. They select, for example, companies that should gain value from synergistic acquisitions or that have a competitive advantage in their industry. Within approved asset allocation guidelines, our investment professionals can take advantage of short-term trading opportunities to generate added value.

U.S. equities can comprise up to 10 per cent of our actively managed core portfolio. This enables us to add companies in economic sectors that are underrepresented in Canada, such as pharmaceuticals, or regional U.S. banks that have different valuation multiples and performance profiles than Canadian banks.

As part of our actively managed Canadian equity investments, we manage smaller portfolios with more specific mandates than our other equity investments to enhance overall investment returns. The more concentrated nature of these portfolios results in increased risk; however, we believe this risk is balanced by our expectation for enhanced returns over the long term. These portfolios include:

- The Canadian Focus Fund which had assets of \$1,618 million as at December 31, 2007 and invests in a select group of up to 30 Canadian equities which are expected to earn above average returns over the long term.

- The Canadian Small Cap Fund which had assets of \$472 million as at December 31, 2007 and invests in well-managed publicly traded Canadian small capitalization companies with strong growth profiles and positive business outlooks.
- The Canadian Enhanced Fund which had assets of \$437 million as at December 31, 2007 and strategically invests in Canadian stocks listed on the S&P/TSX Composite Index that are expected to outperform relative to their peers within a sector.

Participating in global economies increases our portfolio diversification and lowers overall risk. In 2007, we actively invested \$11,767 million in the equities of companies outside of Canada, including in the United States, Europe, the Far East, United Kingdom and emerging markets as shown in the table below.

Our non-Canadian equity portfolios are actively managed by external investment management firms that specialize in regional and national markets around the world. Such a global mandate enables us to make larger allocations by country, sector or capitalization where we believe higher returns are possible. During the year, additional funds were allocated to non-Canadian equities managed by external investment management firms; however, this was offset by decreases in market value as a result of the generally poor performance of global equity markets and the strengthening of the Canadian dollar against major currencies.

(MILLIONS)	2007		2006	
	Holdings	(%)	Holdings	(%)
United States	\$ 4,746	40%	\$ 4,419	39%
Europe	2,836	24%	2,768	25%
Far East	1,656	14%	1,632	15%
United Kingdom	1,125	10%	1,085	10%
Emerging markets	1,404	12%	1,249	11%
	\$ 11,767	100%	\$ 11,153	100%

Quantitatively Managed Equity Portfolios

Our investment professionals earn enhanced and less volatile returns from market indices by employing actively managed low-risk strategies that include index-based swaps, arbitrage and the anticipation of changes in index composition. Using technical analysis and computer modeling, these strategies, referred to as quantitative management, are applied to Canadian equities. The Fund has invested \$955 million in managed portfolios that target the S&P/TSX Composite Index and other indices.

Derivative Financial Instruments

In order to manage risk and enhance returns we enter into a variety of widely used industry standard derivative contracts. These contracts are used in combination with other investment assets with the objective of providing a cost efficient means to improve returns by mitigating uncompensated risks and to add flexibility to the asset mix. Derivatives also enable us to rebalance the overall asset mix, or the asset mix within a class, on short notice to adjust for market shifts. We held derivatives with a notional value of \$20,887 million at December 31, 2007, including \$14,347 million of foreign exchange forward contracts.

Interest Rate Derivatives

We use interest rate derivatives to enhance investment yields and to manage the duration of our interest bearing investments and our fixed versus floating interest rate exposure. At the end of 2007 we held interest rate derivatives with a notional value of \$1,979 million.

Equity Derivatives

We use derivative contracts to replicate Canadian and non-Canadian equity index returns. This exposure to the indices of major equity markets is achieved primarily through the use of equity futures and equity index swap contracts, and complements the Canadian equities portfolio and global equity portfolios managed both internally and externally. At December 31, 2007, the Fund had public equity derivative exposure of \$4,561 million representing the notional value of derivatives as follows:

- \$779 million in derivative portfolios that provide exposure to the S&P/TSX Composite, the S&P/TSX 60 index and other indices;
- \$2,271 million in derivative portfolios that provide exposure to the S&P 500 index;
- Various derivative portfolios totaling \$1,511 million that provide diversified exposure to major equity indices throughout the world.

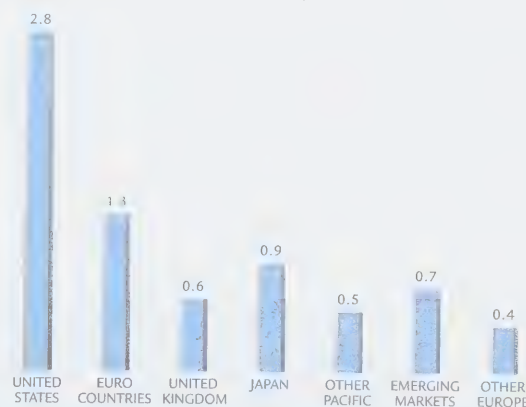
Foreign Exchange Derivatives

We use foreign exchange forward contracts to manage our exposure to currencies other than the Canadian dollar and to generate returns through active trading. At December 31, 2007, \$19,458 million or 37 per cent of the Fund's net investment assets were exposed to foreign exchange risk before foreign currency management. Our largest foreign currency management strategy hedges approximately 50 per cent of our exposure to 14 major currencies, narrowing their volatility relative to the Canadian dollar. In addition, for non-Canadian private market investments we hedge foreign currency exposure up to 100 per cent. Our currency management programs produced income of \$1,475 million in 2007, compared to a loss of \$473 million in 2006, largely as a result of the significant appreciation of the Canadian dollar against the U.S. dollar, the British pound, the yen and the euro during the year. In 2006 the Canadian dollar had depreciated against the British pound and the euro. Since our currency hedging program was implemented in 2001, it has produced total income of \$2,274 million. Our net foreign currency exposure after accounting for our foreign currency management and trading programs at December 31, 2007 was \$7,174 million and is allocated as shown in the chart below.

NET FOREIGN CURRENCY EXPOSURE

(AS AT DECEMBER 31, 2007)

(BILLIONS, CDN DOLLAR EQUIVALENT)



The credit risk exposure for derivatives is the unpaid amount receivable from counterparties. We follow prudent risk management policies, limiting our derivative credit risk exposure to less than five per cent of total fund net investment assets. We require that all counterparties have a minimum "A" credit rating. At December 31, 2007, the credit risk exposure was 0.4 per cent, or \$188 million.

Private Equity Investments

Diversification
is an important element
of our strategy

OMERS Capital Partners (OCP) manages our private equity investments and has delivered strong returns exceeding the benchmark over the last three years. OCP continues to develop and strengthen investment relationships around the world which are the foundation for our future growth and meeting our long term objectives. At the end of 2007, the private equity team managed 61 fund relationships and 24 direct investments.



7.4%
ASSET MIX
EXPOSURE
AS AT
DEC. 31/07

Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly. Our goal over the long term is to build a portfolio of private equity investments diversified by geographic market, industry sector, size of company and type of investment that will represent approximately 10 per cent of our asset mix.

Our private equity investment strategy includes both a fund and a direct investment program. Our fund investment programs involve making investment commitments as a limited partner in a select number of top tier private equity funds managed by external investment professionals who have demonstrated the ability to consistently outperform

their peers over time in selecting companies in which to invest. Other factors important in our consideration in making fund commitments include the quality, continuity and depth of the investment management team, the amount of capital the investment management team is committing, the strategic fit within our investment program and the likelihood of being presented co-investment opportunities. The types of fund commitments we make include leverage buyouts, venture capital, mezzanine debt, distress and special situations. Leverage buyouts represent the majority of our fund commitments, representing from 65 to 85 per cent of our investment program. The fund investment strategy is an efficient and cost-effective investment approach to achieve a diversified investment portfolio. We use diversification to manage investment risk. Individual fund commitments range from \$50 million to up to \$250 million.

RATE OF RETURN AND ASSET MIX EXPOSURE

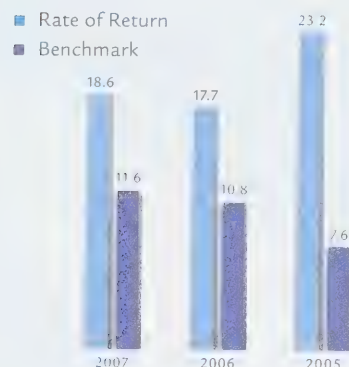
18.6%

Rate of Return

The overall private equity return in 2007 was 18.6% compared with a benchmark of 11.6%.

ASSET MIX EXPOSURE

	2007	2006	2005
Private Equity	7.4%	6.0%	6.0%

RATE OF RETURN
AND BENCHMARK
(%)

OCP's direct investment strategy has two facets – investments where we manage, jointly manage or exercise significant influence; and passive direct investments, which we define as co-investments, side-by-side with our fund investment manager. Our focus for direct majority managed investments is primarily on companies headquartered in Canada. When we decide to partner, it is with other like-minded investors. Our target investment size is from \$50 million to \$250 million, except for co-investments where we will consider a lower amount.

Combining a fund investment strategy with a direct investment strategy brings the right resource skills together. It strengthens our relations with our fund partners, with our willingness and ability to participate as a co-investor. It also broadens our investment partnering network.

Significant Direct Investments

- Cengage Learning (formerly, Thomson Learning) and Nelson Education
- Constellation Software Inc.
- Give and Go Prepared Foods
- Golf Town
- Marketwire (formerly, CCNMatthews)
- NXP (formerly, Philips Semiconductor)
- Warner Chilcott

Significant Fund Investments

- APAX
- Charterhouse
- Hellman and Friedman
- KKR
- ONEX
- Sagard
- TPG (formerly, Texas Pacific Group)

In 2007, the AC reclassified two investments from the private equity asset class to the infrastructure asset class: CEDA International, a leading industrial, mechanical and electrical services company serving the Alberta oil sands; and OMERS Energy, an oil and gas exploration company with interests in oil and gas wells throughout western Canada.

Private equity investments generated net investment income of \$452 million in 2007, compared with \$360 million last year. The 2007 return on total private equity investments was 18.6 per cent compared with a benchmark return of 11.6 per cent and a 17.7 per cent return in 2006. Income and returns continued to be strong in 2007, driven by strong gains in both direct investments and fund holdings, which more than offset the reduction of income due to the reclassification of CEDA International and OMERS Energy.

During 2007, private equity investments increased from \$2,951 million to \$3,608 million due to investments in both funds and direct investments. Approximately 64 per cent of our private equity investments are managed by fund managers in Canada, the United States, western Europe and Asia with the remaining 36 per cent directly invested in companies. We were successful at increasing the pace of our investments in 2007; as a result the Fund's asset mix exposure to private equity investments increased to 7.4 per cent at the end of 2007 compared with 6.0 per cent a year earlier. We are continuing to make progress toward our long-term asset mix target of 10 per cent.

In 2007, we made 15 new fund commitments totaling \$1,077 million, in both new and existing relationships. We expect that our investment in private equity will continue to grow as we fund commitments made in previous years, of which \$1,915 million was unfunded at the end of 2007. We expect the pace of investments by our fund managers to slow in 2008 as a result of the debt crisis in the U.S. and its impact on global markets.

During 2007, we made \$540 million of direct investments including the acquisition of majority interest in Nelson Education. This was done in conjunction with APAX, one of our significant fund relationships, which led the acquisition

of the global operations of Cengage Learning (formerly, Thomson Learning), a leading provider of learning solutions and publisher of academic textbooks for kindergarten to grade 12 and for higher education. In addition, in 2007 we acquired Golf Town Income Fund, Canada's leading retailer of golf merchandise, for approximately \$240 million, and Give and Go Prepared Foods, a market leader in thaw-and-serve sweet baked goods throughout North America. We will continue to be responsive and proactive in seeking new direct investments where we can add value to deliver our required return.

In addition, other significant investments include interests in:



Affinia Group Inc. is a leading manufacturer and distributor of aftermarket components for cars, trucks and off-highway vehicles. Affinia's broad range of brake, filtration and chassis products are sold in North and South America, Europe, and Asia.



Cari-All Group Inc. is a North American leading manufacturer and distributor of retail shopping carts.



Constellation Software Inc. is an international provider of market leading software and services to the public and private sectors. Constellation acquires, manages and builds vertical market software businesses that provide custom mission-critical software.



Cookie Jar Group of Companies produces and distributes high-quality, non-violent programming and supplemental educational products for children, families and educators worldwide.



GIVE & GO

Give and Go Prepared Foods Corp. is a Toronto-based wholesale bakery producing Two-Bite Brownies™, Cinnamon Crunchies™, Butter Tarts and Two-Bite Coffee™ Cakes. Give and Go products are sold throughout Canada and in the U.S.



Golf Town is Canada's leading retailer of golf merchandise from leading manufacturers together with teaching academies, golf simulators and pro shop services. Golf Town also provides logo services on apparel and equipment for corporate tournaments and events.



Sitel Corporation (formerly Client Logic) was acquired by Client Logic in 2007, and the combined company changed its name to Sitel and is a leading global provider of outsourced customer care and back office processing services. Sitel has over 65,000 associates across 28 countries.



Marketwire is a leading provider of newswire services, with one of the largest distribution platforms in North America. Based in Toronto, Marketwire has partnerships worldwide to distribute news, and has offices in the U.S. and the U.K.

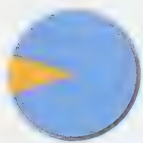


Nelson Education is Canada's leading education publisher, from kindergarten to university and college levels. Nelson offers customized educational solutions for core disciplines such as math, science and language arts.

Infrastructure Investments

A global portfolio with
an enterprise value
exceeding \$25 billion

Borealis Infrastructure (Borealis) manages our infrastructure investments and has been a world leader in developing infrastructure investing as an asset class for institutional investors. Borealis has a proven track record in identifying, investing and managing infrastructure investments around the world and has delivered solid returns, outperforming its benchmark in each of the last three years.



9.9%
ASSET MIX
EXPOSURE
AS AT
DEC. 31/07

Infrastructure investing involves direct investments in inflation-sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both. Individual investments generally require capital commitments for a minimum of 15 to 20 years and typically

generate consistent annual cash flows; a perfect fit in meeting our long-term pension obligations. Through Borealis, we have become a significant investor in the infrastructure sector. Our assets include majority or minority positions alongside other pension, corporate and government investors.

In 2007, the AC reclassified two investments from the private equity asset class to the infrastructure asset class: CEDA International, a leading industrial, mechanical and electrical services company serving the Alberta Oil Sands and OMERS Energy, an oil and gas exploration company with interests in oil and gas wells throughout western Canada. These long-term investments are managed by the infrastructure team.

Infrastructure investments generated net investment income of \$595 million, compared with \$388 million a year earlier. The 2007 return was 12.4 per cent, compared with 9.9 per cent for the benchmark and a 14.0 per cent return in 2006. Net investment income increased \$207 million in 2007 compared with 2006 as a result of unrealized gains recognized on investments made within the past three years and additional income due to the reclassification of CEDA International and OMERS Energy to infrastructure investments, which was partially offset by lower energy sector earnings in 2007.

The infrastructure portfolio is partially funded by \$3,426 million in debt, which is secured by the underlying assets in the portfolio. Interest expense for the year was \$145 million.

At December 31, 2007, we had \$8,412 million invested in infrastructure assets, an increase of \$2,827 million over the prior year. This increased our asset mix exposure to infrastructure from 7.9 per cent in 2006 to 9.9 per cent at the end of 2007. We continue to make good progress toward our long-term asset mix goal. During 2007, recognizing the importance of the infrastructure asset class to providing

RATE OF RETURN AND ASSET MIX EXPOSURE

12.4%

Rate of Return

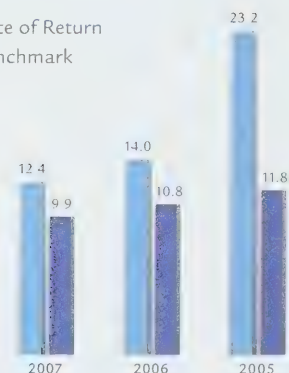
The overall infrastructure return in 2007 was 12.4% compared with a benchmark of 9.9%.

ASSET MIX EXPOSURE

	2007	2006	2005
Infrastructure	9.9%	7.9%	5.7%

RATE OF RETURN AND BENCHMARK (%)

■ Rate of Return
■ Benchmark



long-term stable returns for the Fund, we increased our long-term asset mix exposure target for infrastructure from 15 per cent to 20 per cent.

Our largest infrastructure investment is our limited partnership interests in the Bruce Power nuclear power plant. The agreement with the Ontario Power Authority to restart and refurbish three of the eight reactors at Bruce Power was amended in August, 2007 to allow for the complete refurbishment of an additional reactor. When the program is completed, Bruce Power is expected to supply approximately 25 per cent of Ontario's electricity by 2013 up from the current 20 per cent.

In February 2007, we finalized our purchase of LifeLabs (formerly, MDS Diagnostic Services), from MDS Inc. for \$1,320 million. LifeLabs is Canada's largest provider of laboratory services and provides more than 50 million diagnostic tests to more than 10 million patients and nearly 20,000 physicians each year.

Other significant investments made in previous years include interests in:

- Associated British Ports, the largest port operator in the United Kingdom which owns 21 ports handling approximately 25 per cent of all marine traffic goods into and out of the United Kingdom;
- Scotia Gas Networks which operates the Scotland and the South of England gas distribution networks, comprising approximately 73,000 km of gas lines serving approximately 5.6 million customers;

- CEDA International, a leading industrial, mechanical and electrical services company which is well established in the Alberta oil sands;
- OMERS Energy, an oil and gas exploration company with interests in oil and gas wells throughout western Canada;
- Express Pipeline, a pipeline system that exports crude oil from Alberta to the United States and serves refineries in six western and midwestern states;
- The Detroit River Tunnel which transports over 425,000 railcars annually, making it one of the largest trade corridors in the world;
- Enwave Energy Corporation, which owns the largest deep lake water cooling service in the world and provides environmentally friendly heat and air conditioning to Toronto's downtown office core;
- Confederation Bridge linking Prince Edward Island and New Brunswick, which operates under a concession agreement with the federal government until 2032; and
- CIEL Satellite which will offer wholesale satellite capacity to the North American market.

Significant Investments

- Bruce Power
- Associated British Ports
- Scotia Gas Networks
- LifeLabs
- CEDA International
- OMERS Energy
- Express Pipeline
- Detroit River Tunnel Partnership

Real Estate Investments

Investments that generate
strong, sustainable cash flow
with low volatility

Oxford Properties Group (Oxford) manages our real estate investments and is one of North America's largest commercial real estate investment and real estate management firms. Oxford oversees and manages approximately \$16 billion of real estate for itself and on behalf of its co-owners and investment partners. Oxford's rate of return in each of the past three years has significantly exceeded the benchmark.



12.5%
ASSET MIX
EXPOSURE
AS AT
DEC. 31/07

Oxford continues to build a global platform for real estate investment, providing superior risk-adjusted returns and secure, sustainable and growing cash flows for the Fund. Oxford's strategy focuses on the ownership and active management of significant assets, diversified by property type, geographic market and risk-reward profile. Real estate investments of this nature generate reliable cash flows,

facilitating our ability to meet current benefit obligations. Furthermore, actively managed real estate generally appreciates in capital value over time in step with inflation, which offsets the inflation exposure of our pension liabilities.

Real estate generated net investment income of \$1,239 million; including operating income of \$372 million after interest expense, a 21.9 per cent increase over 2006 net investment income of \$1,016 million, which included operating income of \$350 million after interest expense. The real estate portfolio is partially funded by \$3,457 million in mortgages, debentures, commercial paper and other debt, which resulted

in an interest expense of \$157 million in 2007. Based on total investment income of \$1,245 million before investment management expenses, the return for the real estate portfolio was 22.9 per cent in 2007, compared with a 2007 benchmark return of 7.8 per cent and a 26.2 per cent return in 2006. This is the third straight year of real estate returns in excess of 20 per cent and in each year returns have been well in excess of the benchmark. The increase in income over the prior year is primarily a result of strong rental income, gains on the sales of properties and favourable market value appreciation in the year. In 2007, the continued growth in the real estate market valuations again exceeded expectations.

Oxford's total real estate assets were valued at \$10,904 million at December 31, 2007, an increase of \$2,363 million from 2006. Our asset mix exposure to real estate increased to 12.5 per cent at December 31, 2007 compared with 10.3 per cent in 2006 due to net acquisitions during the year and favourable market valuation increases. As a result, we have reached our long-term asset mix goal of 12.5 per cent for real estate.

RATE OF RETURN AND ASSET MIX EXPOSURE

22.9%

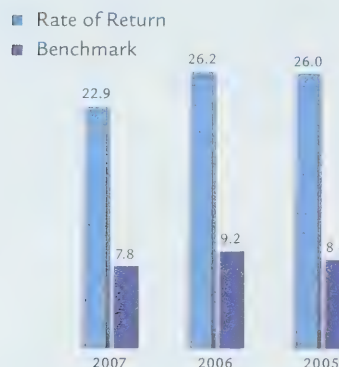
Rate of Return

The overall real estate return in 2007 was 22.9% compared with a benchmark of 7.8%.

ASSET MIX EXPOSURE

	2007	2006	2005
Real Estate	12.5%	10.3%	8.1%

RATE OF RETURN AND BENCHMARK (%)



At December 31, 2007, our direct portfolio consisted of 107 properties, located primarily in Canada, with a total leaseable area of 48.1 million square feet, 2,933 hotel rooms and 18,778 residential units. The portfolio composition is shown in the table below:

Direct Real Estate Portfolio Composition

	Number of Properties	Percentage of Portfolio Based on Market Value
Office	42	41%
Retail	20	27%
Industrial	16	5%
Residential	17	9%
Hotels and resorts	7	16%
Properties under development	2	2%
Land held for development	3	0%
	107	100%

Oxford's office portfolio is diversified geographically in Canada across six major markets. The largest concentration is in Toronto and the surrounding areas (representing approximately 57 per cent of the market value of the office portfolio) with investments in a number of properties. The most significant properties are Canada Trust Tower, Royal Bank Plaza, and the Richmond Adelaide Complex. The other major urban centres where Oxford has investments are Calgary, Vancouver, Edmonton, Ottawa and Montréal.

The retail portfolio comprises 20 properties, primarily super regional and regional shopping centres, totaling 19.3 million square feet. The properties are located across Canada and

in the United States, but are predominantly in the Greater Toronto Area. The more significant properties include 50 per cent ownership interests in Yorkdale Shopping Centre, Square One Shopping Centre, Scarborough Town Centre and the Oshawa Centre in the Greater Toronto Area, Oakridge Centre in Vancouver and Place Laurier in Québec City.

As part of Oxford's strategic and global investment plans, we intend to increase the international component of our direct real estate investments to diversify and enhance returns. At December 31, 2007, 90.2 per cent of Oxford's direct real estate portfolio based on market value was invested in Canada and the remaining 9.8 per cent was invested in the United States, Germany and the United Kingdom. In 2007, Oxford partnered with Babcock & Brown to acquire a 48.9 per cent interest in eight regional shopping centres in the U.S. and a 65 per cent interest in a portfolio of multi-family residential units in Germany. During the year, Oxford also acquired a leasehold interest to develop Watermark Place, a landmark 530,000 square foot office development located in London, England for a total gross development price estimated at \$500 million. Through rigorous research, due diligence and strategic relationships, new investment opportunities will continue to be pursued and assessed in 2008 as part of the continued execution of Oxford's global investment platform.

Oxford also holds and manages a portfolio of indirect investments that were valued at \$656 million as at December 31, 2007.

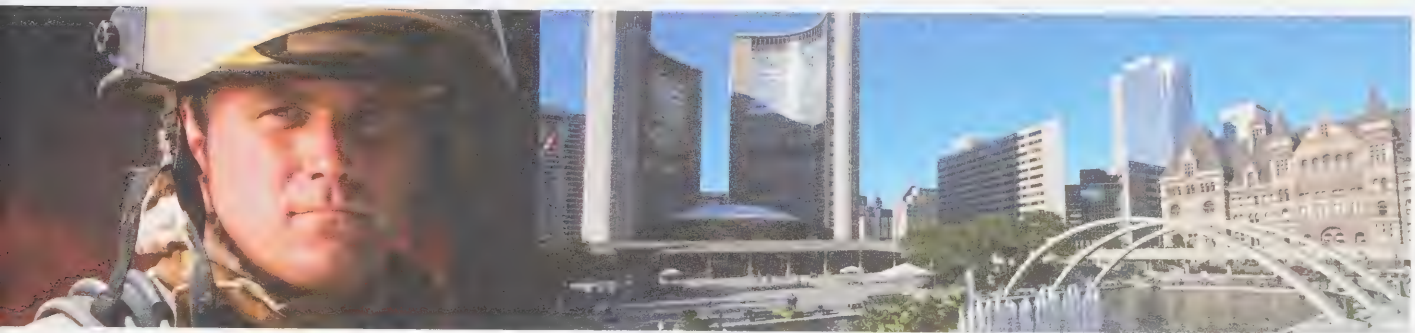
Significant Investments

- Royal Bank Plaza
- Richmond Adelaide Complex
- Canterra Tower
- Watermark Place, England
- Yorkdale Shopping Centre
- Square One Shopping Centre
- A portfolio of seven Fairmont Hotels

Pension Services

A mandate to provide
best-in-class service to our
members across our province

The Pension Division is the primary communications link to our members and employers. We are committed to consistently meeting their needs through two-way open channels of communication. This means we are constantly listening, learning and adapting to ensure our members and employers receive best-in-class service. We are widely recognized in the pension industry both for our excellent pension plan and for our high standards of service.



Our members belong to a wide variety of unions and association groups. The chart on the next page shows a breakdown of our active membership by their affiliation at December 31, 2007.

The OMERS Primary Pension Plan provides members with:

- a guaranteed pension benefit, based on earnings and years of service (as described in the Pension Plans section on page 20 of this Annual Report);
- early retirement options;
- a Canada Pension Plan “bridge” benefit if the member retires before age 65;
- full inflation protection up to 6 per cent per year with any inflation amount above that carried forward to subsequent years;
- disability protection in the event a contributing member becomes disabled and is unable to work;
- survivor benefits to protect a member’s family when a member dies; and
- portability to continue to be a Plan member with over 900 employers across Ontario.

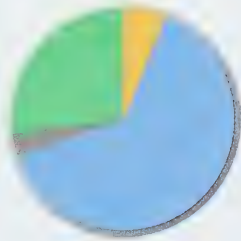
The benefits paid under the Plan, including the Canada Pension Plan bridge benefit (as discussed on page 20, Pension Plans), are calculated by multiplying two per cent of the member’s average annual contributory earnings for the highest paid five consecutive years, times years of credited service, to a maximum of 35 years. This benefit is also provided to members earning in excess of certain federal pension maximum limits through the RCA.

Delivering on the pension promise requires a combination of innovative programs and processes as well as highly skilled and dedicated people who appreciate the importance of understanding the needs of our customers, and fulfilling them efficiently and promptly.

The mandate of the Pension Division is to provide our members and employers with best-in-class pension services. Our performance in 2007 confirms that the technology and human resource platforms we have built over the past several years are meeting this challenge.

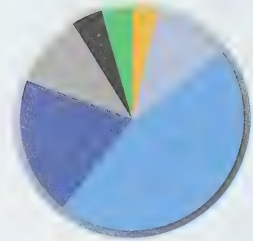
MEMBER PROFILE

■ Active	242,158
■ Deferred	11,740
■ Retired/Survivor	103,438
■ Inactive	22,925
Total	380,261



MEMBER AFFILIATION

■ Canadian Union of Public Employees	45.9%
■ Management/Non-union	20.0%
■ Police Associations	10.6%
■ Ontario Professional Fire Fighters Association	4.6%
■ Ontario Secondary School Teachers Federation	4.3%
■ Ontario Public Service Employees Union	3.5%
■ Other	11.1%



In 2007, our results against our demanding service standards were:

- Initial claims turnaround time – in each month in 2007, met or exceeded target of 3 business days for all key business activities;
- Incoming calls resolved at first point of contact – in each month in 2007, met or exceeded target of 90 per cent;
- Answer incoming calls to client services within 100 seconds – in each month in 2007, met or exceeded target of 80 per cent.

The requirement to deliver outstanding service continues to grow:

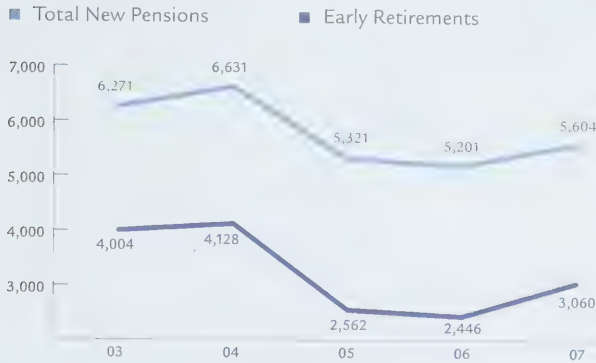
- As illustrated by the member profile above, we now serve a total membership of over 380,000, 2.2 per cent more than at the end of 2006, as well as more than 900 employers;
- In 2007, the pension promise was delivered through monthly Plan and RCA payments for a total of \$1,554 million to over 103,000 retirees. Where individuals left the Plan and the RCA, payments of \$279 million were also made in the form of commuted value payments and transfer payments to other pension plans;
- In 2007, we received requests for over 30,500 retirement, termination, disability, pre-retirement death benefits as well as retirement and termination estimates, an increase of 6 per cent over 2006;

- Communication is a critical element of our service. In 2007, our website had 638,000 visits, an increase of 5 per cent over 2006. We also continued our practice of serving our members and building our relationship with employers through regular communication. We made over 1,100 on-site visits in 2007, making presentations at member information and pre-retirement sessions and supporting employers;
- Eighty-nine per cent of employers (covering 99 per cent of active members) are now registered for our e-access program, which enables employers to look up member information, check the status of an event or process a form over a secure online service;
- e-access continued to extend its reach in 2007. Over the course of the year, 89 per cent of key employer forms were received through e-access, compared with about 87 per cent in 2006 and about 79 per cent at the end of 2005. The most significant e-access application for both employers and the AC is the e-Form 119 application through which employers report annual member data directly through our secure online e-access system. Ninety eight per cent of all annual pension statements were issued to members by June 30, 2007, which exceeded our target of 90 per cent in that time frame.

Not only do we serve many individual members on a timely basis but our annual survey to assess how we are doing at meeting the needs of members and employers reveals that we are doing it well. The 2007 survey results showed an average satisfaction rate of 87 per cent for the overall level of service which demonstrates continuing recognition of our high standards.

NUMBER OF NEW PENSIONS

Unusually high numbers from 2003 to 2004 reflect temporary early retirement windows that were in effect during those years



SATISFACTION SURVEYS

Percentage of respondents who rated OMERS 4 out of 5 or 5 out of 5 for service excellence



During 2007, the Pension Division was busy implementing the provisions of the OMERS Act, which included the requirement for the AC to implement a Supplemental Plan for members of the police sector, fire fighters and paramedics by July 1, 2008. The SC can also establish other Supplemental Plans for other members of the Plan.

The Supplemental Plan is a separately funded, stand-alone registered pension plan, which offers benefits that “top up” those available in the OMERS Primary Pension Plan. Benefit options under the Supplemental Plan include a 2.33 per cent pension accrual rate; an enhanced earnings formula (“best-three” or “best-four” earnings compared to “best-five” in the Plan); and enhanced early retirement options.

Benefits under the Supplemental Plan are not automatic. Under the OMERS Act, a supplemental benefit is not effective until the employer consents to provide that benefit. Only one additional supplemental benefit may be provided every three years.

Our systems and pension processes are being updated to be ready to administer these supplemental benefits. During the year, we also responded to requests for information about the Supplemental Plan, posting detailed information on our website and holding a series of information sessions to help employers, unions and associations understand how the supplemental benefits will work.

In 2007, we reached an agreement with the Ontario Public Service Pension Plan to provide new pension options to protect the benefits of police officers whose employment moves between provincial and municipal police forces. The agreement gives affected members the option of retaining pensions in both plans or consolidating their pension benefits in their current plan. The transfer option stems from an agreement among municipal and provincial police, the Ontario government, the Ontario Pension Board and the AC, and new legislation under the Ontario *Police Services Act* permitting these police pension transfers.

In order to continue to enhance customer service, in 2007, the Pension Division launched a service initiative called “Raising the Bar.” This initiative focuses on areas where we can enhance the quality of our service and our approach to customer communications. It will be supported by a new communications tracking system which will consolidate and provide better access to our history of client contact and enhance our already excellent service for members, retirees and employers across Ontario.

Risk Management

We are committed to providing secure pensions to our members by investing in a broad range of assets in a manner that strives to earn superior returns without taking undue risk. Our goal is to ensure that the value of the Fund is sufficient to meet the value of all pension benefits (the “liabilities”), promised to members of the Plan, on a sustained basis.

Our ability to meet this obligation is affected by two factors:

- fluctuations in the value of the investment portfolio, which are driven by changes in investment markets (primarily market and credit risk), and
- changes in the value of the Plan’s actuarial liabilities, which are driven by both economic and demographic factors.

Risk management is an essential part of our corporate and investment strategy by helping the Fund generate the investment returns needed to keep the pension promise without incurring substantial risk of loss. We continually strive to improve our approach which is enterprise-wide and involves our AC Board, management and employees within each line of business. Risk management is supported by our system of internal controls, procedures and corporate policies including our Code of Conduct, Conflict of Interest and Statement of Investment Policies and Procedures. Management and employees are required to adhere to policies, procedures and standards that a prudent person would reasonably exercise when managing the assets of others.

The value of the Plan’s actuarial liabilities is sensitive to movements in interest rates and inflation rates similar to changes in the value of a portfolio consisting of real return bonds and nominal bonds. However the Fund invests in a combination of equities, infrastructure, real estate and a broad range of interest bearing instruments. While this investment strategy diversifies the investment portfolio and assists in maintaining stable and cost effective contribution rates, it produces a mismatch between the characteristics of the actuarial liabilities and the characteristics of the assets. This exposes the Plan to various risks that must be closely monitored and managed.

Risks Affecting the Plan

The Enterprise Risk Management program has identified four categories of risks that could potentially have an adverse effect on the Plan.

- First, there are investment risks (market and credit) that are an inherent part of investing in capital markets;

- Second, there is an array of operational risks that we face as a business operation;
- Third, there are strategic risks inherent in the execution of our longer-term plan; and
- Finally, there are legal and compliance risks that we deal with in the management and administration of the Plan and the RCA under the laws of Canada as well as laws and regulations of the various countries where we invest.

Investment Risk

We ensure the Fund is well diversified across assets, industries and regions. The purpose of diversification is to have different segments of the investment portfolio exposed to different investment risks. This reduces the overall volatility of returns and helps insulate the investment portfolio from the negative impact of adverse returns in any one asset class, industry or region.

Since our primary long-term focus is to meet the pension promise, we review and adjust the asset mix periodically so that the expected long-term investment returns are sufficient to meet the Plan’s liabilities. Our goal is to manage an asset mix that balances risks and rewards, avoids excessive volatility in the investment portfolio and is appropriate for the size and duration of the Plan’s liabilities. The target weight of each asset class, as a proportion of the total portfolio, and the associated allowable ranges, are approved annually by the AC Board with the objective of reaching our long-term strategic asset mix in a prudent and efficient manner. The progress of our actual asset mix towards our annual and long-term strategic asset mix targets is reviewed on an ongoing basis by the AC Board and management.

We manage a variety of investment risks associated with investing in capital markets including market and credit risk.

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. Market risk encompasses a variety of

financial risks, such as interest rate risk, commodities risk, equity risk and foreign exchange risk. Significant volatility in interest rates, commodity prices, equity values and the value of the Canadian dollar against the currencies in which our investments are held can significantly impact the value of our investments and the funded status of the Plan.

We use various investment strategies such as diversification, hedging and the use of derivative instruments to mitigate the various forms of market risk. Our investment exposures in various assets and markets are monitored daily.

• Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty to fully honour its contractual obligations, including the inability or unwillingness to pay the principal borrowed, or to make interest payments when they come due. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the market value of the debtors' obligations.

Among other mechanisms, we manage credit risk by establishing limits to credit exposure from individual corporate entities and by requiring collateral where appropriate.

Operational Risk

Operational risk is the risk of loss arising either directly or indirectly from operational error due to failure in processes, systems, technology, actions of personnel or due to unforeseen external events. Our framework of policies and procedures is designed to identify and manage operational risks through the implementation of controls over data integrity, information processing, management of information technology and through appropriate human resources, systems and practices.

Strategic Risk

Strategic risk is the risk of not achieving our long-term strategic goals and objectives. The AC Board and the CEO manage the achievement of our strategic goals by overseeing our policies, and the planning and achievement of our long-term goals. The CEO is accountable to the AC Board for decisions relating to the day-to-day management of the Plan and the Fund including funding policy, investment strategies, investments pursued, investment management styles and operating results. To manage this risk, we have established a governance framework, business strategy process and performance measures.

The Plan's funding is a significant strategic risk.

• Funding Risk

Funding risk is the risk of inappropriate policies or decisions related to asset allocation, or actuarial methodologies and valuation processes. Our ability to pay pensions is not only subject to investment risks (discussed in previous section) but is also subject to the risks associated with the assumptions used in the valuation of the Plan's actuarial liabilities. There are two sources of this risk: (1) the risk that actual market conditions differ significantly from the assumptions used in the valuation of the liabilities and (2) unforeseen changes in the major assumptions. The major assumptions that go into the valuation of the actuarial liability include long-term economic conditions (i.e. inflation, the real return on investments, and the rate of member salary increases) and the demographics of the membership (i.e. mortality rates, disability rates, the rates for terminations, early retirement and marital status).

To manage these risks, the AC Board appoints an independent actuary to value the actuarial liability annually based on economic and demographic assumptions as recommended by the actuary, reviewed by management and approved by the AC Board. The validity of all assumptions is monitored each year against actual experience and adjusted as appropriate.

Legal and Compliance Risk

Legal and compliance risks arise from changes in or non-compliance with legal and/or regulatory requirements and/or other ethical standards which can undermine the AC's ability to achieve its objectives. The AC Board and management, with the assistance of the Legal Division (including the Compliance Branch) and independent expert advisors, monitor situations affecting regulatory compliance that could result in regulatory action. The AC has established processes to keep abreast of applicable regulatory developments and to advocate for changes where they are in the best interest of plan members.

Through our governance framework and established policies and procedures, including our Code of Conduct and Conflict of Interest policies for directors and employees, we strive to ensure that values and behavioural expectations are well understood and integrated throughout the organization so as to minimize these risks.

Critical Accounting Policies

We have established procedures to ensure that our accounting policies are in accordance with Canadian generally accepted accounting principles (“GAAP”), are applied consistently and that our processes for changing accounting policies are systematic and well controlled.

Consistent with Canadian GAAP, certain of the AC’s accounting policies require subjective or complex judgments and estimates relating to matters that are inherently uncertain. The use of different judgments and estimates could result in materially different amounts being recorded under different conditions or by using different assumptions. As a result, actual results could materially differ from our estimates and assumptions applied in the Consolidated Financial Statements. Significant estimates included in the Consolidated Financial Statements relate to the valuation of certain investments and the determination of our actuarial liabilities.

Our policy is to record all investments at fair value; however, the determination of fair value involves considering many factors for each type of investment held by the Fund. Fair value is determined with reference to quoted market prices, where available, and excludes transaction costs which are expensed as incurred. For private market investments where quoted market prices are not available, fair value is generally based on internal or external valuations using generally accepted valuation methods. The fair value of private market investments acquired within the current fiscal

year may be held at cost, depending upon events since acquisition. For private equity funds the fair value is generally provided by the fund’s general partner. As a result fair values for private market investments are based on estimates which are inherently uncertain. Our policy is to obtain independent support of these valuations by accredited independent appraisers at least once every three years, or whenever the valuation changes by more than 15 per cent from the prior year.

Actuarial assumptions used in determining actuarial liabilities reflect management’s best estimates of future economic factors such as the discount rate, rate of pensionable earnings increase and inflation, and non-economic factors such as mortality, withdrawal and retirement rates of Plan members. This process is supported by our independent actuary. The Plan’s actual experience could differ from these estimates. Differences are recognized as experience gains or losses in future years.

A summary of our significant accounting policies is presented in Note 2 to the Consolidated Financial Statements.

Senior Management Team

OMERS Management Team



Michael Nobrega
President &
Chief Executive Officer



Patrick Crowley
Chief Financial Officer



John Macdonald
Chief Operating Officer



Jennifer Brown
Senior Vice President,
Pension Division



Gord Brandt
Senior Vice President,
Human Resources



James Roks
Vice President,
Associate General Counsel,
Legal Division

Investment Professionals



James Donegan
Senior Vice President,
OMERS Capital Markets
(Public Investments)



Paul G. Renaud
President &
Chief Executive Officer,
OMERS Capital Partners
(Private Equity)



Michael Rolland
President &
Chief Executive Officer,
Borealis Infrastructure
(Infrastructure)



Michael Latimer
President &
Chief Executive Officer,
Oxford Properties Group
(Real Estate)



AC Governance

Under the new *Ontario Municipal Employees Retirement System Act, 2006* which was proclaimed into law in June 2006, the Ontario Municipal Employees Retirement Board became the OMERS Administration Corporation, responsible for pension administration, valuation of the actuarial liability and investment of the pension funds. The initial appointments of the 14 members of the AC Board were made by the Ontario Government as set out in the legislation. After a transition period provided in the OMERS Act, subsequent appointments will be as set out in SC by-laws.

Corporate and Board Governance

Effective and transparent pension plan governance is the foundation that allows OMERS to fulfill its pension promise to its members. Throughout its 45 year history, OMERS has continuously sought to achieve the highest standards in governance, as evidenced by the AC's Governance Vision and Mission.

- **Governance Vision**

The AC Board will be publicly recognized as an industry leader in corporate and pension governance.

- **Governance Mission**

The purpose of governance is to ensure effective board and management decision-making through the use of processes and controls to ensure the Plan is administered in the best interests of the Members and Beneficiaries.

AC Governance Reform Project

The AC continually looks for opportunities to improve its governance practices and procedures and in 2007 launched a governance reform project to:

- define board and committee mandates;
- define roles and responsibilities between the AC Board and management;
- define required board competencies;
- improve processes to effectively monitor management performance; and
- provide a means of benchmarking and assessing the overall governance process.

Board Governance

The AC has many existing policies and practices in place that support its commitment to best governance practices, including:

- corporate by-laws and a Board Member Handbook;
- a board education program that includes mandatory corporate director certification from The Directors College, operated in conjunction with The Conference Board of Canada, the DeGroote School of Business and McMaster University, as well as mandatory orientation in board operations and governance;
- strict auditor independence guidelines that separate the audit and non-audit functions. The AC's external auditor is prohibited from providing non-audit consulting services except under predefined situations as approved by the Audit Committee and AC Board;
- a Code of Conduct, covering areas such as conflict of interest, fiduciary duty, workplace harassment, discrimination, privacy and confidentiality, that applies to AC Board members and employees who are required to affirm their compliance each year;
- an "ethics hotline" supported by a "whistle-blowing" policy;
- a conflict of interest policy regarding investments. Board members, senior management and appropriate investment and accounting staff must pre-clear their securities trades, disclose holdings and sign an annual certificate of compliance;
- a requirement that members of the Audit Committee meet the standard of financial literacy; and

- transparency and accountability to plan participants through regular meetings with plan participants and stakeholders as well as timely and accurate print and electronic communication. The AC regularly publishes summaries of Board proceedings on the OMERS website.

Board Membership

Currently, the AC Board comprises seven employer and seven plan member representatives as follows:

Employer Representatives

- Association of Municipalities of Ontario – two members
- City of Toronto – one member
- School Boards (rotates between Public and Catholic Boards) – one member
- Ontario Association of Police Services Boards – one member
- Other employers (rotates among representatives of other employers) – two members

Plan Member Representatives

- Canadian Union of Public Employees (Ontario) – two members
- Police Association of Ontario – one member
- Association of Municipal Managers, Clerks and Treasurers of Ontario – one member
- Ontario Professional Fire Fighters Association – one member
- Other contributing members (rotates among other unions and associations) – one member
- Members receiving or entitled to a pension (rotates among organizations representing these members) – one member

Board Independence

The AC Board appoints the CEO, who is not a member of the Board, and reviews his/her performance regularly throughout the year. Day-to-day management of the AC is delegated to the CEO. The AC Board also appoints the external auditor, master custodian and actuary and has access to independent legal advice. The AC Board has regular in camera meetings without management present.

AC Board Remuneration

In 2007, the AC Board members received per diem payments determined and authorized by directives of the Government of Ontario Management Board Secretariat. Effective January 1, 2008 the remuneration paid to AC Board members will be determined by the SC.

AC Board members received per diem fees for AC Board and committee meetings, other eligible meetings and preparation time. The AC Board Chair received a \$247 per diem for each meeting day and preparation time; the AC Board Vice Chair received a \$225 per diem for each meeting day and preparation time; and all other AC Board members received a \$192 per diem for each meeting day and preparation time. Preparation time includes 2.5 days per month for the AC Board Chair, the Vice Chair and each Committee Chair, and 2 days per month for all other AC Board members. Fees were generally paid to the AC Board member; however, in some cases fees were paid to the employer.

The table on page 46 includes remuneration paid to the AC Board members for AC Board and committee meetings as well as preparation time in 2007 with comparable numbers for 2006.

	2007			2006		
	Remuneration	Other ⁽¹⁾	Total	Remuneration	Other ⁽¹⁾	Total
David Kingston (Chair)	\$ 23,588	\$ 26,923	\$ 50,511	\$ 22,230	\$ 19,884	\$ 42,114
John Sabo (Vice Chair)	20,813	6,525	27,338	17,621	4,802	22,423
Frederick Biro ⁽³⁾	10,560	1,056	11,616	15,168	2,784	17,952
David Carrington	14,016	1,248	15,264	13,728	1,344	15,072
Edward DeSousa ⁽²⁾	13,248	768	14,016	6,528	1,152	7,680
Richard Faber	14,976	11,424	26,400	17,376	12,960	30,336
John Goodwin ⁽³⁾	960	–	960	–	–	–
Marianne Love ⁽²⁾	–	–	–	10,350	4,612	14,962
Rick Miller	13,824	8,256	22,080	14,976	12,864	27,840
Ann Mulvale	17,472	5,856	23,328	17,280	3,552	20,832
David O'Brien ⁽²⁾	9,120	288	9,408	4,896	1,152	6,048
Michael Power	14,112	5,472	19,584	12,672	4,704	17,376
Peter Routliff	14,112	864	14,976	17,568	1,920	19,488
Gerard Sequeira ^{(2), (4)}	11,136	864	12,000	4,800	960	5,760
John Weatherup	12,576	1,824	14,400	12,192	1,056	13,248
Cameron Weldon ⁽⁴⁾	14,496	1,920	16,416	12,960	3,936	16,896
Other ⁽⁵⁾	–	(7,930)	(7,930)	–	(480)	(480)
Total Board Remuneration	\$ 205,009	\$ 65,358	\$ 270,367	\$ 200,345	\$ 77,202	\$ 277,547

(1) Other includes per diem remuneration for mandatory education, eligible advisory meetings and travel.

(2) Part year in 2006.

(3) Part year in 2007.

(4) Remuneration for these AC Board members is paid directly to their employer.

(5) Reimbursement of AC Board members time spent on the Supplemental Plan issue.

Directors also received reimbursement for normal out-of-pocket business expenses incurred on behalf of the AC. Board expenses by director are reported to the Audit Committee annually.

AC Board Attendance

Board and committee meeting attendance in 2007 was 88 per cent as compared with 89 per cent in 2006.

Board Committees

In 2007, the AC Board had five standing committees which assisted the Board in discharging its responsibilities by reviewing and making recommendations consistent with their mandates.

Investment Committee (Committee of the Whole)

- Reviewed asset mix policy; reviewed investment policy including the Statement of Investment Policies and Procedures; reviewed and approved major investment decisions.

Pension Committee

- Reviewed plan service quality and standards, pension communications, plan administration policy and AC Board-mandated administrative decisions. As a result of the establishment of the SC, the AC Board decided to eliminate the Pension Committee effective January 1, 2008.

Audit Committee

- Monitored the integrity of the AC's financial reporting processes and system of internal control regarding financial reporting and accounting compliance; reviewed financial statements; identified and monitored management of principal risks that impact financial reporting; monitored the enterprise risk management program and assessed the independence and performance of the AC's external auditors and internal audit department.

Governance Committee

- Reviewed the mandate of the AC Board and its committees; evaluated AC Board orientation and education programs; reviewed the composition of committees and qualifications for AC Board members and policies relating to AC Directors, and reviewed all policies relating to ethical business conduct and external communications.

Human Resources and Compensation Committee

- Reviewed human resources strategy, executive compensation and performance, succession planning for the CEO and Senior Executive Management team, and non-executive compensation and incentive plans.

AC Board and Committee Attendance

Board/Committee (Number of Meetings in 2007)

Board Member	Board (22)			Investment (15)			Pension (8)			Governance (8)			Audit (4)			HR (11)			Total (68)		
	Attended	Total	%	Attended	Total	%	Attended	Total	%	Attended	Total	%	Attended	Total	%	Attended	Total	%	Attended	Total	%
Frederick Biro ⁽¹⁾	19	20	95%	8	12	67%	-	-	-	4	7	57%	3	3	100%	-	-	-	34	42	81%
David Carrington	21	22	95%	15	15	100%	8	8	100%	-	-	-	-	-	-	11	11	100%	55	56	98%
Edward DeSousa	19	22	86%	14	15	93%	-	-	-	8	8	100%	-	-	-	10	11	91%	51	56	91%
Richard Faber	20	22	91%	14	15	93%	7	8	88%	7	8	88%	-	-	-	-	-	-	48	53	91%
John Goodwin ⁽²⁾	1	2	50%	1	2	50%	-	-	-	-	-	-	-	-	-	-	-	-	2	4	50%
David Kingston ⁽³⁾	22	22	100%	13	15	87%	7	8	88%	8	8	100%	4	4	100%	11	11	100%	65	68	96%
Rick Miller	21	22	95%	15	15	100%	8	8	100%	8	8	100%	-	-	-	-	-	-	52	53	98%
Ann Mulvale	22	22	100%	14	15	93%	-	-	-	-	-	-	4	4	100%	11	11	100%	51	52	98%
David O'Brien ⁽⁴⁾	16	22	73%	9	15	60%	-	-	-	6	8	75%	-	4	-	-	-	-	31	49	63%
Michael Power	18	22	82%	10	15	67%	5	8	63%	8	8	100%	-	-	-	-	-	-	41	53	77%
Peter Routliff	20	22	91%	12	15	80%	-	-	-	-	-	-	2	4	50%	10	11	91%	44	52	85%
John Sabo ⁽³⁾	22	22	100%	12	15	80%	7	8	88%	7	8	88%	4	4	100%	11	11	100%	63	68	93%
Gerard Sequeira	15	22	68%	8	15	53%	-	-	-	-	-	-	3	4	75%	11	11	100%	37	52	71%
John Weatherup	21	22	95%	13	15	87%	8	8	100%	-	-	-	-	-	-	11	11	100%	53	56	95%
Cameron Weldon	21	22	95%	14	15	93%	8	8	100%	-	-	-	4	4	100%	-	-	-	47	49	96%
Overall Attendance	90%			82%			91%			89%			77%			98%			88%		

(1) Resigned October 31, 2007.

(2) Appointed November 15, 2007.

(3) Ex officio member for Pension, Governance, Audit, and Human Resources & Compensation Committees.

(4) Attendance impacted by conflicting employer board meeting obligations mandated by the director's employer prior to his becoming an AC Board member.

Board of Directors



David Kingston,
Chair of the Board
Retired Police Officer



Frederick Biro
Executive Director
Regional Municipality of
Peel Police Services Board
*(Retired from Board
October 31, 2007)*



David Carrington
Energy Advisor
Toronto Hydro Electric
System Ltd.



Edward DeSousa
Director of Finance
& Treasurer
Town of Halton Hills



Richard Faber
Retired Member



John Goodwin
Retired Partner
Osler, Hoskin & Harcourt
*(appointed effective
November 15, 2007)*



Rick Miller
Fire Fighter
Windsor Fire Department



Ann Mulvale
Former Mayor
Town of Oakville



David O'Brien
President &
Chief Executive Officer
Toronto Hydro Corporation



Michael Power
Mayor
Municipality of Greenstone



Peter Routliff
International Representative
International Brotherhood
of Electrical Workers
(IBEW)



John Sabo
Associate Director -
Leading Services &
Treasurer of the Board
York Catholic District
School Board
(Incoming Chair)



Gerard Sequeira
Director, Finance
& Administration
Municipal Property
Assessment Corporation
(MPAC)



John Weatherup
President
CUPE 4400



Cameron Weldon
Treasurer
City of Toronto

Proxy Voting

We strive to be a leader in terms of our internal governance practices. We expect the same of the companies we invest in.

The Fund beneficially owns shares valued at nearly \$22 billion in more than 1,600 publicly traded companies around the world. We believe that companies that have strong corporate governance are generally more capable of creating value for shareholders. We prefer to invest in companies governed by directors who understand that the best interests of the shareholders are met by effectively managed corporations where management has a well thought out strategy for expanding the business, running it efficiently and achieving long-term profitability.

The most important tool we have for influencing policy among investee companies is exercising our ownership rights through our proxy votes. We vote proxies diligently in accordance with specific guidelines that we believe will optimize the long-term value of our investments. Our Proxy Voting Guidelines set out our policy on corporate governance matters and indicate how we will likely vote on individual issues. We consider the quality of a company's overall governance in deciding whether to vote for or against specific proposals. Votes are cast against those proposals we feel would dilute shareholder value.

We are also a member of the Canadian Coalition for Good Governance whose purpose is to represent Canadian institutional shareholders through the promotion of best corporate governance practices and to align the interests of boards and management with those of the shareholder.

The Proxy Voting Guidelines and our voting record on major proposals for Canadian companies can be found on our website, www.omers.com.

Our key proxy voting principles

Our proxy voting guidelines are based on a number of key principles, including:

- proper sharing of the rewards of the enterprise between stakeholders is essential to long-term prosperity and the generation of long-term value.
- stakeholders involved in the corporate governance process accept their respective roles with a sense of fairness.
- a corporation that does not respond to public concerns or reasonable shareholder requests will eventually suffer in terms of its economic and capital market performance.
- ownership rights should not be subordinated. Minority shareholders should not be treated differently from controlling shareholders.
- the proxy vote is an important asset of a pension fund. Fiduciaries are obligated to exercise their ownership rights by voting proxies diligently in order to optimize the long term value of their investments.
- effective management of the risks associated with social, environmental and ethical matters can lead to long-term financial benefits for the companies concerned and shareholders have a right to know about the activities of their companies.
- all fiduciary votes at board and shareholders' meetings should be confidential, and tallied by an independent auditor as appropriate; and
- prompt disclosure of the results of votes at annual meetings is an important governance practice.

PROXY VOTES CAST

■ Canada	2,262
■ United States	3,895
■ Non-North American	9,823



Proxy votes in 2007

During 2007, we voted a total of 15,980 ballots covering 1,571 shareholder meetings globally. In Canada, we cast 2,262 ballots in 280 shareholder meetings. Outside of Canada, we cast 3,895 ballots in the U.S. and 9,823 ballots outside of North America at 1,291 shareholder meetings.

Responsibilities of Management, the Actuary and External Auditors

OMERS Administration Corporation (the "AC") is the administrator of the primary pension plan as defined in the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Primary Pension Plan" or the "Plan") and the Retirement Compensation Arrangement ("RCA") associated with the Plan. The AC is responsible for investing the funds of the Plan and the RCA (the "Fund"). The consolidated financial statements of OMERS Administration Corporation have been prepared by management of the AC, and approved by the Board of the AC (the "AC Board"). Management is responsible for the contents of the consolidated financial statements and the financial information contained within the Annual Report.

Management maintains systems of internal control and supporting procedures that are designed to ensure the integrity and fairness of the data presented, that transactions are duly authorized and that assets are adequately safeguarded. These controls include clear divisions of responsibilities, accountability for performance, timely communication of policies and procedures throughout the organization and high standards in the hiring and training of employees. In addition, Internal Audit, which reports directly to the Audit Committee of the AC Board, reviews the AC's systems of internal control to determine whether these controls are appropriate and operating effectively.

The AC Board is responsible for approving the annual consolidated financial statements. The Audit Committee, which is comprised of directors who are not officers or employees of the AC, assists the AC Board in executing this responsibility. The Audit Committee meets regularly with management and the internal and external auditors to review the scope and timing of their respective audits as well as to review any internal control or financial reporting issues and their resolution. The Audit Committee reviews the annual consolidated financial statements and recommends them to the AC Board for approval.

The actuary is appointed by the AC Board. It is the actuary's responsibility to carry out annual valuations of the actuarial liabilities of the Plan and RCA in accordance with accepted actuarial practice and to report thereon to the AC Board. The Audit Committee assists the AC Board in executing this responsibility. The results of the actuary's valuation are set out in the Actuarial Opinion. In performing the valuation, the actuary values the benefits provided under the Plan and RCA using appropriate assumptions about future economic conditions (such as inflation, salary increases, and investment returns) and demographic factors (such as mortality, termination rates and retirement ages). These assumptions take into account the circumstances of the AC and its active, inactive and retired members.

The external auditors are also appointed by the AC Board. Their responsibility is to report to the AC Board whether the consolidated financial statements present fairly, in all material respects, the net assets; actuarial liabilities and surplus/(deficit) of actuarial value of net assets over actuarial liabilities of the AC; and the changes in its net assets for the financial year, in accordance with Canadian generally accepted accounting principles. The external auditors have full and unrestricted access to management and the Audit Committee to discuss any findings arising from their audit related to the integrity of financial reporting and the adequacy of internal control systems on which they rely for the purposes of their audit. The external auditors use the work of the actuary as part of their audit of the actuarial liabilities disclosed in the notes to the consolidated financial statements, in respect of which the actuary has provided the Actuarial Opinion. The auditors' report outlines the scope of their examination and their opinion.

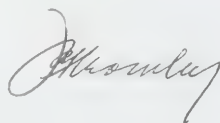
Based on my knowledge, the Annual Report does not contain any untrue statement of a material fact, or omit to state a material fact, that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by this Annual Report.

Based on my knowledge, the annual financial statements, together with the other financial information included in the Annual Report, fairly present in all material respects the net assets, changes in net assets and surplus/(deficit) of actuarial value of net assets over actuarial liabilities of the AC as of the date and for the periods presented in this Annual Report.



Michael Nobrega
President and Chief Executive Officer

Toronto, Ontario
February 21, 2008



Patrick G. Crowley
Chief Financial Officer

Actuarial Opinion

As at December 31, 2007

The most recent actuarial valuation of the registered pension plan benefits of the primary pension plan (the "OMERS Primary Pension Plan" or the "Plan") administered by OMERS Administration Corporation was conducted as at December 31, 2007 using the Unit Credit Actuarial Cost Method, with projection of earnings. The purpose of the valuation was to fairly present the funded status of the Plan as at December 31, 2007, for inclusion in this Annual Report in accordance with Section 4100 of the Canadian Institute of Chartered Accountants Handbook.

The results of the actuarial valuation of the Plan disclosed total going concern actuarial liabilities of \$46,830 million in respect of benefits accrued for service to December 31, 2007. The actuarial assets at that date were \$46,912 million indicating a going concern actuarial surplus of \$82 million. Ongoing adequacy of the current contribution rates will need to be monitored to ensure that future contributions, together with the Plan assets and future investment earnings thereon, will be sufficient to provide for all future benefits.

Full earnings pension benefits are benefits provided, using a Retirement Compensation Arrangement ("RCA"), in excess of the maximum pension benefits under the Plan and are not fully pre-funded. The actuarial liability in respect of the full earnings pension benefits accrued for service to December 31, 2007 (determined using assumptions consistent with those used for the Plan except that the discount rate is adjusted to approximate the effect of the 50% refundable tax under the RCA), net of the RCA assets, was \$199 million. Contributions, based on the top-tier Plan contribution rates, are payable to the RCA on the excess of earnings over the maximum contributory earnings recognized under the Plan. It is expected that if contributions to the RCA continue, the annual cash inflow will be more than sufficient to cover the annual benefit payments for the short to medium term.

The actuarial valuation of Plan and the RCA as at December 31, 2007 was conducted using membership data as at December 31, 2006 and financial information as at December 31, 2007 supplied by OMERS Administration Corporation. The December 31, 2006 membership was adjusted for the following:

- membership movements to December 1, 2007,
- actual inflationary increases to pensions in payment and deferred pension payments effective January 1, 2008, and
- the estimated increase in earnings for 2007.

We reviewed the data for reasonableness and consistency with the data provided in prior years. In our opinion,

- the data are sufficient and reliable for the purpose of the valuation;
- the assumptions adopted are, in aggregate, appropriate for the purpose of the valuation; and
- the methods employed in the valuation are appropriate for the purpose of the valuation.

Nonetheless, the future experience of the Plan and the RCA may differ from the actuarial assumptions, resulting in gains or losses which will be revealed in future valuations.

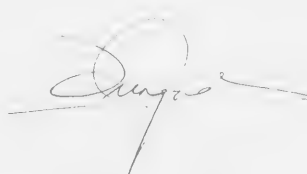
The valuation was prepared and our opinions are given in accordance with accepted actuarial practice.

Respectfully submitted

WATSON WYATT CANADA ULC



Ian Markham
Fellow, Canadian Institute of Actuaries



Andrew K. Fung, F.S.A.
Fellow, Canadian Institute of Actuaries

Toronto, Ontario
February 21, 2008

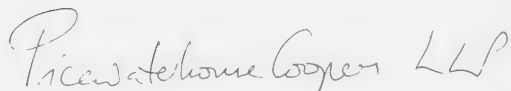
Auditors' Report

To the Board of OMERS Administration Corporation

We have audited the consolidated statement of net assets and the consolidated statement of application of net assets to actuarial liabilities and surplus/(deficit) of OMERS Administration Corporation as at December 31, 2007 and the consolidated statement of changes in net assets for the year then ended. These consolidated financial statements are the responsibility of OMERS Administration Corporation's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these consolidated financial statements present fairly in all material respects, the net assets and surplus/(deficit) of actuarial value of net assets over actuarial liabilities of OMERS Administration Corporation as at December 31, 2007 and the changes in its net assets for the year then ended in accordance with Canadian generally accepted accounting principles.



Chartered Accountants,
Licensed Public Accountants

Toronto, Ontario
February 21, 2008

Consolidated Financial Statements

CONSOLIDATED STATEMENT OF NET ASSETS

(MILLIONS)

AS AT DECEMBER 31,

	2007	2006
Assets		
Investments (NOTE 3)	\$ 66,215	\$ 60,610
Amounts due from pending trades	347	138
Other assets (NOTE 5)	825	724
Total Assets	67,387	61,472
Liabilities		
Investment liabilities (NOTE 6)	14,580	12,725
Due to administered funds	800	741
Amounts payable from pending trades	449	363
Other liabilities	42	38
Total Liabilities	15,871	13,867
Net Assets	\$ 51,516	\$ 47,605

Guarantees, commitments and contingencies are discussed in note 15.

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Signed on Behalf of the Board of OMERS Administration Corporation

Chair

Chair of Audit Committee

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

(MILLIONS)

FOR THE YEAR ENDED DECEMBER 31,

	2007	2006
Changes Due to Investment Activities		
Net investment income (NOTE 9)	\$ 3,938	\$ 6,530
Changes Due to Pension Activities		
Contributions (NOTE 11)	1,886	1,792
Benefits (NOTE 12)	(1,833)	(1,744)
Pension administrative expenses (NOTE 13(a))	(43)	(38)
	10	10
Total Increase	3,948	6,540
Net assets, beginning of year	47,605	41,065
Change in accounting policy for transaction costs (NOTE 2)	(37)	-
Net assets, beginning of year restated	47,568	41,065
Net Assets, End of Year	\$ 51,516	\$ 47,605

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF APPLICATION OF NET ASSETS
TO ACTUARIAL LIABILITIES AND SURPLUS/(DEFICIT)

(MILLIONS)

AS AT DECEMBER 31,

	2007	2006
OMERS Primary Pension Plan (NOTE 7)		
Actuarial liabilities	\$ 46,830	\$ 44,167
Actuarial value adjustment of net assets	4,567	5,791
Surplus/(Deficit)	82	(2,382)
Net Assets in OMERS Primary Pension Plan	51,479	47,576
Retirement Compensation Arrangement (NOTE 8)		
Actuarial liabilities	236	172
Deficit	(199)	(143)
Net Assets in Retirement Compensation Arrangement	37	29
Net Assets	\$ 51,516	\$ 47,605

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

Notes to Consolidated Financial Statements

Year ended December 31, 2007

Note 1

DESCRIPTION OF PLANS ADMINISTERED BY OMERS ADMINISTRATION CORPORATION

The OMERS Administration Corporation (the “AC”) is a corporation without share capital under the *Ontario Municipal Employees Retirement System Act, 2006* (the “OMERS Act”). The AC is the administrator of the primary pension plan as defined in the OMERS Act (the “OMERS Primary Pension Plan” or the “Plan”) and the Retirement Compensation Arrangement (“RCA”) associated with the Plan. The AC is responsible for investing the funds of the Plan and the RCA (the “Fund”), as defined in the OMERS Act, in accordance with the *Pension Benefits Act* (Ontario) (the “PBA”), the *Income Tax Act* (Canada) (the “Income Tax Act”), and the OMERS Act. Under the OMERS Act, the OMERS Sponsors Corporation (the “SC”) is the sponsor of the Plan and the RCA. The Ontario Municipal Employees Retirement System (“OMERS”) represents the combined retirement system comprised of the SC, the AC, the Plan and the RCA.

OMERS Primary Pension Plan

The OMERS Primary Pension Plan is a multi-employer pension plan, created in 1962 by an Act of the Ontario Legislature, whose members are mainly employees of Ontario municipalities, local boards, public utilities and non-teaching school board staff. Effective June 30, 2006, the Plan is governed by the OMERS Act and the benefit provisions and other terms of the Plan are set out in the Plan text.

The OMERS Primary Pension Plan is registered with the Financial Services Commission of Ontario and the Canada Revenue Agency. The Plan is registered under Registration #0345983.

- a) **Funding** – The Plan is a contributory defined benefit pension plan funded by equal contributions from participating employers and members and by the investment earnings of the Plan assets. Contribution rates are set by the SC. The required contributions are identified through the actuarial valuation, and are determined in accordance with the OMERS Act, the *Income Tax Act* and the PBA, according to the actuarial needs of the Plan.
- b) **Pensions** – The normal retirement age (“NRA”) is 65 years for all Plan members, except police officers and firefighters, who generally have a normal retirement age of 60 years. The normal retirement pension is calculated using a member’s years of credited service and the average annual earnings during the member’s highest sixty consecutive months of earnings. The Plan benefits are integrated with the Canada Pension Plan.
- c) **Death Benefits** – Death benefits are available to a surviving spouse, eligible dependent children or designated beneficiary upon the death of a member or in some cases, a retired member. Depending upon eligibility requirements, the benefits may be paid in the form of a survivor pension, lump sum payment or both.
- d) **Withdrawals and Transfers from the Plan** – Subject to lock-in provisions, a member that has terminated employment prior to eligibility to retire has the option to withdraw or transfer his/her benefits from the Plan to another retirement savings vehicle.
- e) **Escalation of Pensions** – Pension benefits are increased for inflation through an annual adjustment equal to 100 per cent of the increase in the average Consumer Price Index (CPI) from the prior year. This is subject to a limit of six per cent in any one year. If the increase in the average CPI exceeds the six per cent limit, any excess is carried forward to future years.
- f) **Disability Pensions** – A disability pension is available at any age to a member who becomes totally disabled as defined by the Plan. The pension is calculated using a member’s years of credited service and the average annual earnings during the member’s highest sixty months of consecutive earnings consistent with a standard pension. Disability pensions continue until normal retirement or until the member is able to return to work.
- g) **Income Taxes** – The Plan is a Registered Pension Plan as defined in the *Income Tax Act* and as such is not subject to income taxes for contributions or investment income received. The operations of certain entities holding private equity, infrastructure or real estate investments may be taxable.

Retirement Compensation Arrangement

The RCA was established to provide pension benefits based on full earnings for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act*. The determination of the value of these benefits is made on the basis of a periodic actuarial valuation. The RCA net assets available for benefits are accounted for separately from the Plan and the accrued liabilities of the RCA are valued separately from the Plan actuarial valuation.

Note 2

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These consolidated financial statements are prepared on a going concern basis in accordance with Canadian generally accepted accounting principles and present the information of the AC as a separate financial reporting entity independent of the employers and Plan members.

Certain comparative figures have been restated to conform to the current year's presentation.

Consolidation

With the exception of private equity investments with a defined exit strategy, the consolidated financial statements include the financial assets, liabilities and operating results for all investment entities where the AC has effective control for accounting purposes, and for variable interest entities where the AC is the primary beneficiary. For investment entities where the AC has joint ownership and control for accounting purposes, a proportionate share of the fair value of assets, liabilities and operating results is included in the consolidated financial statements. Entities over which the AC has significant influence are accounted for using the equity basis of accounting, stated at fair value.

For private equity investments with a defined exit strategy, the fair value of the investments is stated net of all assets and liabilities of the investment company.

Inter-company transactions and balances are eliminated in arriving at the consolidated financial statements.

Use of Estimates

The preparation of consolidated financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, actuarial liabilities and related disclosures. Actual results could differ from these estimates. Significant estimates included in the consolidated financial statements relate to the valuation of private market investments and the determination of the actuarial liabilities.

Investments

All investment transactions are recorded at the point when the risks and rewards of ownership are transferred. Purchases and sales of publicly traded investments are recorded as of the trade date.

Investments are stated at fair value. Fair value represents estimates of the consideration that would be agreed upon between arm's-length, knowledgeable, willing parties who are under no compulsion to act. It is best evidenced by a quoted closing market price, if one exists. The calculation of fair value is based on market conditions at a specific point in time and may not be reflective of future fair values.

Where a public market price is not available for an investment asset or liability, a suitable method of valuation is used annually by management to determine fair value. Valuation techniques used include the use of discounted cash flows, earnings multiples, prevailing market rates for instruments with similar characteristics or other pricing models, as appropriate. Accredited external appraisers are required to perform a review of management's valuations to determine the reasonableness of the valuations for each significant private market investment at least once every three years or in any year where the valuation changes by more than 15 per cent from the prior year.

The difference between the value of an asset or liability at the time it was acquired and its current fair value takes into account changes in market rates and credit risk of the issuer that have occurred since original acquisition. Unrealized appreciation/depreciation in the fair value of investments is the change in fair value adjusted for cash flows during the year and is reflected in net investment income/loss in the consolidated statement of changes in net assets.

Fair values of investments are determined as follows:

- (i) Short-term deposits are recorded at cost, which together with accrued interest income approximates fair value.
- (ii) Bonds and debentures, real return bonds and public equities are valued at year-end quoted market prices, where available. For these instruments and for mortgages and private debt, where quoted market prices are not available estimated values are calculated using discounted cash flows based on current market yields for comparable securities, independent asset appraisals, and financial analysis.
- (iii) Private market investments include investments in private equity, infrastructure and real estate assets either held directly or as a limited partner. For private market investments, the completion of a purchase or sale of an identical or similar investment is often the most objective determination of fair value. Other third party events are also considered in the valuation. While not exact, appraisal or valuation procedures are able to provide estimates or identify likely ranges that a reasonable counterparty would pay for such assets. The Fund's private market investments are valued as follows:
 - The fair value of investments that have reasonably predictable future revenue streams or that derive their value based on property or commodity values is equal to the appraised amount;
 - The fair value of non-operating and/or start-up directly held private investments is equal to cost, unless there is a specific and objectively verifiable reason to change the value, which must be supported by an appraisal;
 - The fair value of private market investments acquired within the current fiscal year may be held at cost, depending upon events since acquisition;
 - The fair value of a private fund investment where the AC's ability to access information on underlying individual fund investments is restricted, such as under the terms of a limited partnership agreement, is equal to the value provided by the fund's General Partner unless there is a specific and objectively verifiable reason to vary from the value provided by the General Partner.
- (iv) Derivatives, including swap, futures, option and forward contracts, are recorded at fair value with unrealized gains and losses included in net investment income. Fair values are determined using quoted market prices, where available, or discounted cash flows using current market yields, where quoted market prices are not available.

During the year the AC changed its accounting policy for the treatment of transaction costs in accordance with Canadian Institute of Chartered Accountants ("CICA") guidance. Previously, transaction costs were capitalized and included in the cost of the assets. The assets were subsequently subjected to valuation processes as discussed above. This resulted in transaction costs being included in unrealized gains/losses in the period the investment was first valued. Transaction costs are now expensed when incurred. In accordance with CICA guidance this change in accounting policy has been applied retrospectively without restatement of prior periods. The impact of the change has been recognized as a restatement of opening net assets.

Investment Income/Loss

Investment income/loss includes interest, dividends, operating income/loss from consolidated and equity accounted investment entities recorded on the accrual basis, gains and losses that have been realized on the disposal of investments, as well as the unrealized appreciation and depreciation in the fair value of investments.

Where the AC is able to exercise significant influence over the operations of a private market investment, net income is recognized using the equity method and the investment is adjusted to its fair value. For private investments where the AC is not able to exercise control or significant influence, income is recognized, as dividends or distributions are declared and the investment is adjusted to its fair value.

Investment Liabilities

Investment liabilities include debentures, mortgages and other debt obligations, primarily related to investments in real estate, infrastructure and private equity. Investment liabilities also include the Fund's liability to return cash collateral received in securities lending transactions. The fair value of investment liabilities is estimated using discounted cash flows based on current market yields, except for items that are short-term in nature, which are carried at their cost amount.

Amounts Due/Payable from Pending Trades

For securities transactions, the fair value of amounts due from pending trades and amounts payable from pending trades approximate their carrying amounts due to their short-term nature. For derivative contracts, unrealized gains and losses are included in amounts due/payable from pending trades.

Foreign Currency Translation

Certain investments are denominated in foreign currencies. The fair values of such investments are translated into Canadian dollars at the year-end rate of exchange. Unrealized foreign exchange gains and losses arising from this translation are included in net gain/loss on investments. Once a foreign currency denominated investment is sold, the realized foreign exchange gain or loss based on the settlement is recognized in realized gains/losses.

Due to Administered Funds

Under contractual agreements and with the approval of the Government of Ontario, the AC invests funds on behalf of The Board of Trustees of Ryerson University, the Minister of Energy for the Province of Ontario (The Ontario Hydro Guarantee Fund) and the Transit Windsor Fund. The AC is authorized under the terms of the various agreements to recover its expenses for administering such funds.

The amount due to administered funds is credited with income based upon their proportionate interest in the Fund's investment income and the balance reflects the administered funds' proportionate interest in the fair value of the Fund's investments.

Accrued Pension Benefits

The value of accrued pension benefits of the Plan is based on a projected accrued benefits method (pro-rated on service) actuarial valuation prepared by an independent firm of actuaries. This obligation is measured in accordance with accepted actuarial methods using actuarial assumptions and methods adopted by the AC for the purpose of establishing the long-term funding requirements of the Plan. The actuarial valuation included in the consolidated financial statements is consistent with the valuation for funding purposes.

The valuation methodology used in the estimation of the accrued pension benefits of the RCA is developed on a basis consistent with the Plan.

Actuarial Value of Net Assets and Actuarial Value Adjustment

The actuarial value of net assets for the Plan has been determined by smoothing returns above or below the actuarial long-term rate of return assumption over a five-year period. The fair value of net assets is adjusted by the unamortized actuarial value adjustment to arrive at the actuarial value of net assets.

Contributions

Contributions from employers and members due to the Plan and the RCA as at the end of the year are recorded on an accrual basis. Service purchases that include but are not limited to leaves of absence, conversion of normal retirement age and contract adjustments and transfers from other pension plans are recorded when the purchase amount is received.

Benefits

Benefit payments to retired members are recorded as they are due, at the first of each month. Commuted value payments and transfers to other pension plans are recorded in the period in which the AC is notified. Accrued benefits for active members are recorded as part of accrued actuarial liabilities.

Note 3

INVESTMENTS

Investments, before allocating the effect of derivative contracts and investment related assets and liabilities are as follows:

(MILLIONS)	2007		2006	
	Fair Value	Cost	Fair Value	Cost
Public Market Investments				
Interest Bearing Investments				
Cash and short-term deposits ⁽ⁱ⁾	\$ 11,374	\$ 11,374	\$ 11,352	\$ 11,352
Bonds and debentures ⁽ⁱⁱ⁾	6,661	6,527	6,446	6,281
Real return bonds	2,039	1,786	1,969	1,685
Mortgages and private debt ⁽ⁱⁱⁱ⁾	1,433	1,396	1,324	1,265
	21,507	21,083	21,091	20,583
Public Equity				
Canadian public equities	10,017	6,925	9,518	6,127
Non-Canadian public equities	11,767	10,818	12,924	9,978
	21,784	17,743	22,442	16,105
Total Public Market Investments	43,291	38,826	43,533	36,688
Private Equity^(iv)				
Canadian private equities ^(v)	1,143	1,052	1,360	1,133
Non-Canadian private equities	2,465	2,526	1,591	1,645
	3,608	3,578	2,951	2,778
Infrastructure Investments^(v)	8,412	7,783	5,585	5,110
Real Estate Investments	10,904	9,212	8,541	7,597
Total Investments	66,215	59,399	60,610	52,173
Investment Related Assets				
Amounts due from pending trades	347	160	138	59
Other investment assets (NOTE 5)	654	651	561	561
	1,001	811	699	620
Investment Related Liabilities				
Investment liabilities (NOTE 6)	(14,580)	(14,386)	(12,725)	(12,536)
Amounts payable from pending trades	(449)	(251)	(363)	(66)
	(15,029)	(14,637)	(13,088)	(12,602)
Net Investment Assets	\$ 52,187	\$ 45,573	\$ 48,221	\$ 40,191

(i) Includes restricted cash of \$55 million (2006 - \$119 million).

(ii) Includes non-Canadian bonds and debentures with a fair value of \$229 million (2006 - \$142 million).

(iii) Includes mortgages with a fair value of \$814 million (2006 - \$919 million).

(iv) Investment assets are net of the fair value of long-term debt of \$319 million.

(v) Includes resource properties with a total fair value of \$396 million (2006 - \$217 million).

The AC participates in a securities lending program where it lends securities that it owns to third parties. For securities lent, the Fund receives a fee and holds cash or securities of higher value as collateral. As at December 31, 2007, securities with an estimated fair value of \$7,284 million (2006 – \$8,061 million) were loaned out, while collateral held had an estimated fair value of \$7,502 million (2006 – \$8,313 million) of which \$6,626 million (2006 – \$7,153 million) was cash collateral invested in short-term interest bearing investments.

At December 31, the Fund held the following investments, each having a fair value or cost exceeding one per cent of the fair value or cost of net investment assets:

(MILLIONS)	2007			2006		
	Number of Investments	Fair Value	Cost	Number of Investments	Fair Value	Cost
Public market investments	2	\$ 1,102	\$ 1,094	5	\$ 2,427	\$ 1,768
Private market investments	8	7,550	6,847	7	5,447	4,697
	10	\$ 8,652	\$ 7,941	12	\$ 7,874	\$ 6,465

Public market investments where the individual issue has a cost or fair value exceeding one per cent of the cost or fair value of net investment assets includes two interest bearing securities issued by the Government of Canada.

Private market investments having a cost or fair value exceeding one per cent of the cost or fair value of net investment assets include a limited partnership interest in Bruce Power; ownership interests in the William Osler Health Care Centre, Associated British Ports, Scotia Gas Networks and LifeLabs; and real estate ownership interests in Yorkdale Shopping Centre located in Ontario, the Fairmont Banff Springs hotel located in Alberta, and the Richmond Adelaide Complex located in Ontario.

The Fund's net investment assets by major asset class are as follows:

(MILLIONS) AS AT DECEMBER 31, 2007	Public Markets						Total
	Interest Bearing	Public Equity	Private Equity	Infra-structure	Real Estate		
Investment assets	\$ 21,507	\$ 21,784	\$ 3,608	\$ 8,412	\$ 10,904	\$	66,215
Allocation of cash and other	(4,037)	3,116	242	325	354		–
Investment related assets	90	370	17	412	112		1,001
Investment related liabilities	(6,810)	(265)	(17)	(3,984)	(3,953)		(15,029)
Net investment assets	\$ 10,750	\$ 25,005	\$ 3,850	\$ 5,165	\$ 7,417	\$	52,187

(MILLIONS) AS AT DECEMBER 31, 2006	Public Markets						Total
	Interest Bearing	Public Equity	Private Equity	Infra-structure	Real Estate		
Investment assets	\$ 21,091	\$ 22,442	\$ 2,951	\$ 5,585	\$ 8,541	\$	60,610
Allocation of cash and other	(4,119)	3,803	(29)	107	238		–
Investment related assets	78	165	98	258	100		699
Investment related liabilities	(7,161)	(371)	(136)	(2,115)	(3,305)		(13,088)
Net investment assets	\$ 9,889	\$ 26,039	\$ 2,884	\$ 3,835	\$ 5,574	\$	48,221

Investment Risk Management

Investments are exposed primarily to market and credit risk. Market risk includes exposure to changes in interest rates, foreign currencies, equity and commodity values. The AC has formal policies and procedures that govern the extent of market and credit risk exposure. For example, the Statement of Investment Policies and Procedures establishes a target asset mix among interest bearing, public equity, private equity, infrastructure and real estate investments to ensure diversification across asset classes. The AC's policies also require diversification of investments within asset classes, and limits the exposure to individual investments and counterparties. In addition, derivative financial instruments are used, where appropriate, to assist in the management of these risks (note 4).

Foreign Currency Risk

Investments denominated in currencies other than the Canadian dollar expose the Fund to fluctuations in foreign exchange rates. Fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or a negative effect on the fair value of investments. The AC has currency exposure management programs under which it hedges foreign currency exposure through the use of foreign exchange forward contracts. The AC makes active investments in foreign currencies with the objective of adding value. The Fund's total currency exposure, the impact of hedging and trading activities and its net currency exposure as at December 31 are as follows:

(MILLIONS CDN DOLLAR EQUIVALENT)	2007 Fair Value By Currency				2006 Fair Value By Currency			
	Total Exposure	Hedging	Trading	Net Exposure	Total Exposure	Hedging	Trading	Net Exposure
Canada	\$ 32,729	\$ 12,382	\$ (98)	\$ 45,013	\$ 29,426	\$ 11,020	\$ (80)	\$ 40,366
United States	8,994	(5,971)	(194)	2,829	9,034	(5,204)	(589)	3,241
Euro Countries	3,667	(2,397)	(7)	1,263	2,924	(1,706)	(97)	1,121
United Kingdom	2,783	(2,126)	(20)	637	2,765	(2,308)	22	479
Japan	1,182	(649)	325	858	1,360	(728)	620	1,252
Other Pacific	1,039	(515)	–	524	1,033	(462)	5	576
Emerging Markets	940	(215)	(6)	719	855	(76)	71	850
Other Europe	853	(509)	–	344	824	(536)	48	336
	\$ 52,187	\$ –	\$ –	\$ 52,187	\$ 48,221	\$ –	\$ –	\$ 48,221

Interest Rate Risk

Interest rate risk refers to the effect on the market value of the Fund's assets and liabilities due to fluctuations in interest rates. Due to the inflation indexing of benefit entitlements and the relatively long-term nature of pension benefits (notes 7 and 8), liabilities are influenced by inflation and long-term rates of return while asset values are mostly affected by changes in equity markets and interest rates. The interest bearing investment portfolio has guidelines on concentration, duration and distribution which are designed to mitigate the risk of interest rate volatility.

The term to maturity classifications of interest bearing investments, based upon the contractual maturity of the securities, are as follows:

(MILLIONS)	2007					2006	
	Term to Maturity				Average Effective Yield ⁽ⁱ⁾	Total	Average Effective Yield ⁽ⁱ⁾
	Within 1 Year	1 to 5 Years	Over 5 Years	Total			
Cash and short-term deposits	\$ 11,374	\$ –	\$ –	\$ 11,374	4.74%	\$ 11,352	4.28%
Bonds and debentures	88	2,754	3,819	6,661	4.28%	6,446	4.28%
Real return bonds ⁽ⁱⁱ⁾	–	–	2,039	2,039	1.98%	1,969	1.81%
Mortgages and private debt	413	439	581	1,433	5.50%	1,324	5.34%
	\$ 11,875	\$ 3,193	\$ 6,439	\$ 21,507	4.39%	\$ 21,091	4.12%

(i) Average effective yield represents the weighted average rate required to discount future contractual cash flows to current market value.

(ii) Real return bond yields are based on real interest rates. The ultimate yield will be impacted by inflation as it occurs.

After giving effect to the derivative contracts and investment related assets and liabilities, a one per cent increase/decrease in nominal interest rates would result in an approximate decrease/increase in the value of interest bearing investments of 7.9 per cent (2006 – 8.1 per cent). Similarly, a one per cent increase/decrease in real interest rates would result in an approximate decrease/increase in the value of the real-return bonds of 20.3 per cent (2006 – 21.7 per cent).

Bonds and debentures primarily consist of Government of Canada and Provincial Government debt. Corporate debt of \$582 million (2006 – \$1,035 million) makes up 6.7 per cent (2006 – 12.3 per cent) of the fair market value of bonds and debentures (including real return bonds).

Market Risk

Market risk is the risk that the value of an investment will fluctuate as a result of changes in market conditions, whether those changes are caused by factors specific to the individual investment, or factors affecting all securities traded in the market. To mitigate the impact of market risk, the Fund invests in a diversified portfolio of assets, based on AC Board approved policies, and utilizes derivative financial instruments.

Credit Risk

Credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the AC including its inability or unwillingness to pay borrowed principal, interest or rent when they come due. The AC has established investment criteria designed to manage credit risk by setting limits to credit exposure from individual corporate entities. Credit risk arising from derivative financial instruments is discussed in note 4.

Note 4

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are financial contracts, the value of which is derived from changes in underlying assets or indices. Derivatives transactions are conducted in over-the-counter markets directly between two counterparties or on regulated exchange markets.

Derivative financial instruments are used, when appropriate, to manage the Fund's asset mix and to assist in the management of exposure to financial risks, including interest rate, foreign exchange and market risks, without directly purchasing or selling the underlying assets or currencies. In certain circumstances, derivatives are also used to increase returns or to replicate investments synthetically.

Types of contracts currently entered into by the Fund include:

Interest Rate Swaps

Interest rate swaps involve contractual agreements between two counterparties to exchange fixed and floating interest payments based on notional amounts.

Bond and Equity Swaps

Bond and equity swaps involve contractual agreements between two counterparties to exchange a series of cash flows based on changes in value of bond or equity instruments or an index.

Bond and Equity Options

Bond and equity options are contractual agreements where the seller (writer) gives the right but not the obligation to a counterparty to buy (call option) or sell (put option) a specified quantity of a financial instrument on or before a specified future date at a predetermined price. The financial instruments may include bonds, a bond index, equities or an equity index. The seller receives a premium from the counterparty for this right. Options may be traded through an exchange or in the over-the-counter market.

Bond Forward Contracts

Bond forward contracts are contractual agreements to buy or sell bonds or a bond index at a specified price and date in the future. Forwards are customized contracts transacted in the over-the-counter market.

Equity Index Futures Contracts

Futures contracts are agreements to either buy or sell specified equity indices at a specified price and date in the future. Futures are transacted in standardized amounts on regulated exchanges and are subject to daily cash settlement of changes in fair value.

Foreign Exchange Forward Contracts

Foreign exchange forward contracts are obligations in which two counterparties agree to exchange one currency for another at a specified price for settlement on a predetermined date in the future. Foreign exchange forward contracts are used to provide exposure to currencies other than the Canadian dollar, to hedge currency exposure and for active trading.

The Fund is exposed to credit-related losses in the event of non-performance by counterparties to derivative financial instruments. In order to mitigate this risk, the Fund:

- deals only with highly rated counterparties, normally major financial institutions with minimum credit standard of "A" rating, as supported by a recognized credit rating agency;
- arranges credit risk mitigation in the form of periodic prepayments of the fair value of contracts.

Credit risk represents the maximum amount that would be at risk as at the reporting date if the counterparties failed to perform under the contracts, and if the right of offset proved to be non-enforceable. Credit risk exposure on derivative financial instruments is represented by the replacement cost receivable of contracts with counterparties, less any prepayment collateral or margin received, as at the reporting date.

Credit risk on futures contracts is minimal as the counterparty is an exchange rather than a corporate entity and contracts are marked to market and margin receivables and payables are settled in cash daily.

The following summarizes the Fund's derivative portfolio and related credit exposure:

(MILLIONS)	2007			2006		
	Notional Value ⁽ⁱ⁾	Assets ⁽ⁱⁱⁱ⁾	Fair Value ⁽ⁱⁱ⁾ Liabilities	Notional Value ⁽ⁱ⁾	Assets ⁽ⁱⁱⁱ⁾	Fair Value ⁽ⁱⁱ⁾ Liabilities
Interest Rate Contracts						
Interest rate swap contracts	\$ 1,562	\$ 22	\$ (23)	\$ 404	\$ 16	\$ (3)
Bond index swap contracts	417	5	-	421	-	(3)
Bond options purchased ^(iv)	-	-	-	99	1	-
	1,979	27	(23)	924	17	(6)
Equity Contracts						
Equity index futures contracts	3,680	2	(18)	3,852	-	(10)
Equity index swap contracts	793	4	(12)	609	28	-
Equity options written ^(v)	88	-	(2)	25	-	(1)
	4,561	6	(32)	4,486	28	(11)
Foreign Exchange						
Forward Contracts	14,347	155	(146)	11,977	35	(281)
Total	\$ 20,887	\$ 188	\$ (201)	\$ 17,387	\$ 80	\$ (298)

(i) Notional value represents the contractual amount to which a rate or price is applied in order to calculate the exchange of cash flows, and is therefore not recorded in the consolidated financial statements.

(ii) Fair value represents unrealized gains or losses from derivative contracts which are recorded in the consolidated statement of net assets based on the fair value of the derivative contract. Fair value represents the cost of replacing all outstanding contracts under current market conditions. Contracts with a positive fair value are recorded as part of amounts due from pending trades. Contracts with a negative fair value are recorded as part of amounts payable from pending trades.

(iii) The fair value of derivative assets represent the credit risk replacement cost or the loss to which the Fund is exposed should counterparties fail to perform under the derivative contracts. The amounts do not take into consideration legal contracts that permit offsetting of positions or any collateral which may be held.

(iv) The premium paid on bond options purchased is \$nil (2006 - \$1 million).

(v) The premium received on equity options written is \$4 million (2006 - \$1 million).

The term to maturity based on notional value is as follows:

(MILLIONS)	2007				2006			
	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total	Interest Rate Contracts	Equity Contracts	Foreign Exchange Contracts	Total
Under 1 year	\$ 706	\$ 4,561	\$ 14,347	\$ 19,614	\$ 573	\$ 4,486	\$ 11,977	\$ 17,036
1 to 5 years	59	-	-	59	284	-	-	284
Over 5 years	1,214	-	-	1,214	67	-	-	67
	\$ 1,979	\$ 4,561	\$ 14,347	\$ 20,887	\$ 924	\$ 4,486	\$ 11,977	\$ 17,387

Note 5

OTHER ASSETS

Other assets are comprised of operational accounts receivable, accrued income and other assets related to private equity, infrastructure and real estate, and contributions and other non-investment receivables.

(MILLIONS)	2007	2006
Investment receivables	\$ 553	\$ 456
Deferred assets, prepaids and other	101	105
Other investment assets	654	561
Contributions receivable ⁽ⁱ⁾	145	146
Other non-investment assets	26	17
	\$ 825	\$ 724

(i) Contributions receivable represent equal amounts due from employers and members.

Note 6

INVESTMENT LIABILITIES

(MILLIONS)	2007	2006
Long-term debt (a)	\$ 6,883	\$ 4,591
Payable under securities lending program (b)	6,626	7,153
Deferred revenue	116	106
Payables	955	875
	\$ 14,580	\$ 12,725

(a) Long-term debt is comprised of the following:

(MILLIONS)	2007			2006		
	Fair Value	Cost	2007 Weighted Average Interest Rate	Fair Value	Cost	2006 Weighted Average Interest Rate
Real estate						
Secured debt ⁽ⁱ⁾	\$ 1,292	\$ 1,298	6.19%	\$ 734	\$ 700	5.46%
Series A debentures ⁽ⁱⁱ⁾	521	500	4.50%	531	500	4.28%
Series B debentures ⁽ⁱⁱⁱ⁾	501	500	4.29%	502	500	4.30%
Commercial paper ^(iv)	1,142	1,142	4.72%	1,138	1,138	4.31%
Unsecured debt	1	1	7.53%	1	1	6.43%
	3,457	3,441	5.18%	2,906	2,839	4.59%
Infrastructure						
Secured debt ^(v)	3,426	3,323	5.56%	1,626	1,496	5.42%
Unsecured debt	–	–	–	18	18	4.50%
	3,426	3,323	5.56%	1,644	1,514	5.41%
Private equity						
Secured debt	–	–	–	41	41	5.27%
Total ^(vi)	\$ 6,883	\$ 6,764	5.37%	\$ 4,591	\$ 4,394	4.89%

(i) Includes mortgages and other secured debt with various terms to maturity up to 2027 with each debt instrument secured by a specific asset.

(ii) OMERS Realty Corporation Series A 5.48% Debentures issued November 27, 2002, maturing December 31, 2012.

(iii) OMERS Realty Corporation Series B 4.69% Debentures issued April 25, 2003, maturing June 2, 2008.

(iv) OMERS Realty Corporation Commercial Paper with maturities as at December 31, 2007 up to February 4, 2008.

(v) Includes mortgages and other secured debt with various terms to maturity up to 2032 with each debt secured by a specific infrastructure asset.

(vi) Scheduled principal repayments for the five years subsequent to December 31, 2007 and thereafter are as follows:

(MILLIONS)	
2008	\$ 1,990
2009	328
2010	313
2011	132
2012	865
Thereafter	3,136
	\$ 6,764

(b) As part of the securities lending program, the Fund receives cash collateral that it invests in short-term interest bearing investments. The Fund is obligated to return the cash collateral upon termination of the arrangement.

Note 7

OMERS PRIMARY PENSION PLAN

A summary of the financial statements for the Plan as at and for the year ended December 31 is as follows:

(MILLIONS)	2007	2006
Statement of Net Assets		
Net investment assets ⁽ⁱ⁾	\$ 51,369	\$ 47,466
Other assets	151	148
Other liabilities	(41)	(38)
Net Assets	\$ 51,479	\$ 47,576
Statement of Changes in Net Assets		
Net investment income	\$ 3,936	\$ 6,528
Contributions	1,875	1,780
Benefits	(1,828)	(1,740)
Pension administrative expenses	(43)	(38)
Total Increase	3,940	6,530
Net assets, beginning of year	47,576	41,046
Change in accounting policy for transaction costs	(37)	-
Net assets, beginning of the year restated	47,539	41,046
Net Assets, End of Year	\$ 51,479	\$ 47,576

(i) Excludes amounts due to administered funds.

Actuarial Value of Net Assets of the Plan

The actuarial value of net assets of the Plan is established such that investment returns above or below the long-term return assumption in effect for the year, 6.75 per cent for 2007 (2006 - 7.00 per cent) are deferred and amortized over five years to adjust the market value of net assets. For 2007, \$550 million (2006 - \$2,924 million) of investment income was credited to the actuarial valuation adjustment because the investment return was in excess of the long-term rate of return assumption.

As a result, at December 31, 2007, the Plan has \$4,567 million in net investment gains (2006 - \$5,791 million) in an actuarial valuation adjustment reserve which is the present value of the amount of previous year's excess net investment returns to be recognized from 2008 through 2011 as follows:

(MILLIONS)	Actuarial Valuation Adjustment as at Dec. 31, 2007 ⁽ⁱ⁾	Unrecognized Investment Returns to be Recognized in				Actuarial Valuation Adjustment as at Dec. 31, 2006
INITIAL YEAR		2008	2009	2010	2011	
2003	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 354
2004	336	358	-	-	-	629
2005	1,340	715	762	-	-	1,884
2006	2,341	832	888	947	-	2,924
2007	550	147	156	167	178	-
	\$ 4,567	\$ 2,052	\$ 1,806	\$ 1,114	\$ 178	\$ 5,791

(i) For each initial year amounts in the actuarial valuation adjustment reserve are escalated annually by the long-term return assumption. Reserve amounts are recognized in actuarial assets based on the number of years remaining in the five-year amortization period.

The change in the actuarial valuation adjustment for the year ended December 31 is as follows:

(MILLIONS)	2007	2006
Expected interest on beginning actuarial valuation adjustment ⁽ⁱ⁾	\$ 390	\$ 190
Current year returns in excess of the funding rate ⁽ⁱ⁾	550	2,924
Prior years' returns (above)/below the funding rate recognized in the year	(2,164)	(30)
Increase/(Decrease)	(1,224)	3,084
Actuarial valuation adjustment, beginning of year	5,791	2,707
Actuarial Valuation Adjustment, End of Year	\$ 4,567	\$ 5,791

(i) Based on the funding rate in effect during the year, 2007 – 6.75 per cent (2006 – 7.00 per cent).

Accrued Pension Benefits of the Plan

The actuarial present value of accrued benefits is an estimate of the value of pension and other benefit obligations of the Plan in respect of benefits accrued to date for all active and inactive members. This obligation is measured using the same actuarial assumptions and methods adopted by the AC for setting the minimum funding requirements as set out under the PBA. As the experience of the Plan unfolds, and as underlying conditions change over time, the actuarial present value of accrued benefits identified in the future could be materially different than anticipated.

The projected accrued benefit method (pro-rated on service) is used for the actuarial valuation. Under this method, the cost of providing benefits to an individual member will increase as the individual member ages and gets closer to retirement.

The following are the primary economic actuarial assumptions which have been used in the actuarial valuation of the Plan as at December 31:

	2007	2006
Assumed rate of inflation	2.50%	2.50%
Assumed rate of pensionable earnings increases (Estimate based on inflation plus an age-related increase)	4.00%	4.00%
Assumed actuarial rate of return on plan assets and discount rate		
– Nominal rate of return	6.75%	6.75%
– Real rate of return	4.25%	4.25%

In addition, demographic assumptions are used to project the future benefits payable to members and beneficiaries, including assumptions about mortality rates, termination rates, and patterns of early retirement. Each of these assumptions is updated periodically, based on a detailed review of the experience of the Plan and on the expectations for future trends.

The accrued benefit obligation as at December 31, 2007, which follows, takes account of known changes in the Plan membership up to December 1, 2007, actual inflationary increases to pension payments and deferred pension payments to be implemented as at January 1, 2008, and estimated pensionable earnings increases and credited service accruals in 2007.

(MILLIONS)	2007	2006
Fair value of net assets of the Plan at end of year	\$ 51,479	\$ 47,576
Actuarial value adjustment	(4,567)	(5,791)
Actuarial value of net assets at end of year	46,912	41,785
Accrued benefit obligation at beginning of year	44,167	41,123
Interest accrued on benefits	3,041	2,934
Benefits accrued	1,799	1,660
Benefits paid (NOTE 12)	(1,828)	(1,740)
Experience losses/(gains) and changes in actuarial assumptions and methods	(349)	190
Accrued benefit obligation at end of year	46,830	44,167
Surplus/(Deficit) of actuarial value of net assets over actuarial liabilities	\$ 82	\$ (2,382)

As a pension plan which provides 100 per cent inflation protection, the Plan's accrued benefit obligation is particularly sensitive to changes in the assumed real rate of pensionable earnings increases, which impacts future benefits and the assumed real rate of return on plan assets, which is also used in the discounting of these future benefits. A 50 basis point change in the real rates for a particular assumption (with no change in other assumptions) would have the following approximate effects on the accrued benefit obligation:

50 BASIS POINT DECREASE/INCREASE	Effect on Accrued Benefit Obligation
Rate of pensionable earnings increases	-/+2.5%
Real return on plan assets and discount rate	+/-8.0%

Solvency Valuation

The actuarial value of net assets and the actuarial present value of accrued pension benefits are presented on a going concern basis. In accordance with the PBA, a solvency (hypothetical wind-up) valuation must be performed on the Plan, even though the risk of it being wound up, in management's view, is remote. This special valuation assumes a liquidation scenario.

As permitted by the PBA, the solvency valuation uses the fair value of assets and a liability discount rate based on long-term nominal bond yields at the valuation date. Under this method, no allowance is made for future salary increments.

The actuarial present value of accrued pension benefits for the Plan under the solvency valuation ("solvency liabilities") was estimated to be \$45,183 million as at December 31, 2007 (2006 - \$42,443 million). This amount excludes the value of future cost of living increases, as permitted under the PBA. As at December 31, 2007, the fair value of net assets of the Plan, allowing for a provision for expenses on wind-up, was \$51,418 million (2006 - \$47,515 million). Since the solvency assets exceed the solvency liabilities, the Plan does not have a solvency deficiency.

Note 8

RETIREMENT COMPENSATION ARRANGEMENT

The Retirement Compensation Arrangement provides pension benefits for those members with earnings exceeding the amount that generates the maximum pension allowed by the *Income Tax Act* with respect to service after 1991. Under the OMERS Act, the AC is the administrator and funding agent of the RCA. The accounting for the RCA is separate from the Plan.

The full earnings pension benefits provided by the RCA are not fully funded but are funded on a modified pay-as-you-go basis in order to minimize the impact of the 50 per cent refundable tax applicable to RCA plans. Contributions are based on the top-tier Plan contribution rates and are payable to the RCA on the excess of earnings over the maximum contributory earnings allowed under the Plan, which was \$125,860 for 2007 (2006 – \$119,764). Benefits in excess of the maximum allowed by the *Income Tax Act* will be paid from the RCA.

A summary of the financial statements for the RCA as at and for year ended December 31 is as follows:

(MILLIONS)	2007	2006
Statement of Net Assets		
Net investment assets	\$ 18	\$ 14
Other assets	20	15
Other liabilities	(1)	–
Net Assets	\$ 37	\$ 29
Statement of Changes in Net Assets		
Net investment income	\$ 2	\$ 2
Contributions	11	12
Benefits	(5)	(4)
Total Increase	8	10
Net assets, beginning of year	29	19
Net Assets, End of Year	\$ 37	\$ 29

The actuarial assumptions used for the RCA are consistent with those used for the Plan except that the discount rate as at December 31, 2007 is 3.375 per cent (2006 – 3.375 per cent), which is 50 per cent of the Plan's discount rate in order to approximate the effect of the 50 per cent refundable tax under the RCA.

Determination of the value of the RCA accrued benefit obligation is made on the basis of a periodic actuarial valuation. The deficit of net assets over actuarial liabilities is as follows for December 31:

(MILLIONS)	2007	2006
Fair value of net assets at end of year	\$ 37	\$ 29
Accrued benefit obligation at beginning of year	172	157
Interest accrued on benefits	6	6
Benefits accrued	7	6
Benefits paid (NOTE 12)	(5)	(4)
Experience losses/(gains) and changes in actuarial assumptions and methods	56	7
Accrued benefit obligation at end of year	236	172
Deficit of actuarial value of net assets over actuarial liabilities	\$ (199)	\$ (143)

Note 9

NET INVESTMENT INCOME

The Fund's investments consist of the following major asset classes: public markets (which includes public equities and interest bearing investments such as mortgages and private debt); private equity; infrastructure and real estate.

Income from assets backing derivative financial instruments is reported in the particular investment category by major asset class. Realized and unrealized income from derivative financial instruments is \$1,222 million (2006 - \$198 million).

The Fund's investment income for each major asset class is as follows:

(MILLIONS)	2007				
	Investment Income ⁽ⁱ⁾	Net Gain/ (Loss) on Investments and Derivatives ⁽ⁱⁱ⁾	Total Investment Income	Investment Management Expenses (note 13(b)), ⁽ⁱⁱⁱ⁾	Net Investment Income
Public Markets ^(iv)	\$ 1,192	\$ 622	\$ 1,814	\$ (101)	\$ 1,713
Private Equity ^(iv)	35	473	508	(56)	452
Infrastructure	396	237	633	(38)	595
Real Estate ^(v)	372	873	1,245	(6)	1,239
	<u>\$ 1,995</u>	<u>\$ 2,205</u>	<u>\$ 4,200</u>	<u>\$ (201)</u>	<u>3,999</u>
Income credited to administered funds					(61)
Net Investment Income					\$ 3,938

(MILLIONS)	2006				
	Investment Income ⁽ⁱ⁾	Net Gain/ (Loss) on Investments and Derivatives ⁽ⁱⁱ⁾	Total Investment Income	Investment Management Expenses (note 13(b)), ⁽ⁱⁱⁱ⁾	Net Investment Income
Public Markets ^(iv)	\$ 1,099	\$ 3,855	\$ 4,954	\$ (84)	\$ 4,870
Private Equity ^(iv)	92	317	409	(49)	360
Infrastructure	379	40	419	(31)	388
Real Estate ^(v)	350	671	1,021	(5)	1,016
	<u>\$ 1,920</u>	<u>\$ 4,883</u>	<u>\$ 6,803</u>	<u>\$ (169)</u>	<u>6,634</u>
Income credited to administered funds					(104)
Net Investment Income					\$ 6,530

(i) Net of total interest on real estate investment liabilities of \$157 million (2006 - \$126 million) and interest on infrastructure investment liabilities of \$145 million (2006 - \$55 million).

(ii) Includes net realized gain of \$3,584 million (2006 - \$2,336 million).

(iii) Investment management expenses relate to corporate activity.

(iv) Total investment income for public markets and private equity is as follows:

(MILLIONS)	2007			2006		
	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income	Investment Income	Net Gain/(Loss) on Investments and Derivatives	Total Investment Income
Public Markets						
Interest Bearing Investments						
Short-term deposits	\$ 212	\$ –	\$ 212	\$ 187	\$ –	\$ 187
Bonds and debentures	301	7	308	293	(42)	251
Mortgages and private debt	83	(23)	60	92	(16)	76
	596	(16)	580	572	(58)	514
Real return bonds	58	(25)	33	53	(102)	(49)
	654	(41)	613	625	(160)	465
Public Equity						
Canadian equities	171	1,019	1,190	175	1,835	2,010
Non-Canadian equities	367	(356)	11	299	2,180	2,479
	538	663	1,201	474	4,015	4,489
	\$ 1,192	\$ 622	\$ 1,814	\$ 1,099	\$ 3,855	\$ 4,954
Private Equity						
Canadian private equities	\$ 12	\$ 51	\$ 63	\$ 80	\$ 96	\$ 176
Non-Canadian private equities	23	422	445	12	221	233
	\$ 35	\$ 473	\$ 508	\$ 92	\$ 317	\$ 409

(v) Total investment income for real estate is as follows:

(MILLIONS)	2007	2006
Revenue	\$ 1,370	\$ 1,064
Property operating and other expenses ⁽ⁱ⁾	(841)	(588)
Operating income	529	476
Interest expense	(157)	(126)
	372	350
Net Gain/(Loss)		
Properties and other investments	822	645
Debt	51	26
	873	671
	\$ 1,245	\$ 1,021

(i) Includes audit costs of \$1.8 million (2006 – \$1.4 million) and legal costs of \$4.0 million (2006 – \$4.0 million).

Note 10

INVESTMENT RETURNS

Investment returns have been calculated in accordance with methods set forth by the CFA Institute and the Pension Investment Association of Canada and are reflective of the Fund's asset class exposure.

	2007	2006
Interest Bearing ⁽ⁱ⁾	4.7%	4.7%
Real Return Bonds	1.6%	-2.9%
Canadian Public Equities	12.8%	21.3%
Non-Canadian Public Equities ⁽ⁱⁱ⁾	0.5%	20.0%
Private Equity ⁽ⁱⁱ⁾	18.6%	17.7%
Infrastructure ⁽ⁱⁱ⁾	12.4%	14.0%
Real Estate ⁽ⁱⁱ⁾	22.9%	26.2%
Total Fund	8.7%	16.4%

(i) Interest bearing investments include short-term deposits, bonds and debentures, mortgages and private debt.

(ii) Returns for non-Canadian public equities, private equity, infrastructure and real estate include the results of the Fund's currency hedging related to the respective asset classes.

Note 11

CONTRIBUTIONS

(MILLIONS)

	2007	2006
Employer and member contributions ⁽ⁱ⁾	\$ 1,840	\$ 1,739
Transfers from other pension plans	21	28
Other contributions ⁽ⁱⁱ⁾	25	25
	\$ 1,886	\$ 1,792

(i) Employer and member contributions are funded equally by employers and members. For NRA 65 members, the contribution rate is 6.5 per cent (2006 - 6.5 per cent) of earnings up to \$43,700 (2006 - \$42,100) and 9.6 per cent (2006 - 9.6 per cent) for earnings above that level. For NRA 60 members, the contribution rate is 7.9 per cent (2006 - 7.9 per cent) of earnings up to \$43,700 (2006 - \$42,100) and 10.7 per cent (2006 - 10.7 per cent) for earnings above that level.

(ii) Other contributions include amounts for leaves of absence, conversion of normal retirement age and contract adjustments.

For the year ended December 31, 2007, contributions to the Plan were \$1,875 million (2006 - \$1,780 million) and to the RCA were \$11 million (2006 - \$12 million).

Note 12

BENEFITS

(MILLIONS)

	2007	2006
Members' pensions	\$ 1,554	\$ 1,492
Commuted value payments and members' contributions plus interest refunded	233	212
Transfers to other pension plans	46	40
	\$ 1,833	\$ 1,744

For the year ended December 31, 2007, total benefit payments from the Plan were \$1,828 million (2006 - \$1,740 million) and from the RCA were \$5 million (2006 - \$4 million).

Note 13

PENSION ADMINISTRATIVE AND INVESTMENT MANAGEMENT EXPENSES

(a) Pension administrative expenses⁽ⁱ⁾

(MILLIONS)	2007	2006
Salaries and benefits	\$ 27	\$ 23
System development and other purchased services	7	8
Premises and equipment	3	2
Professional services ⁽ⁱⁱ⁾	3	2
Travel and communication	3	3
	\$ 43	\$ 38

(b) Investment management expenses⁽ⁱ⁾

(MILLIONS)	2007					
	Public Market	Private Equity	Infra- structure	Real Estate	Total	
Salaries and benefits	\$ 30	\$ 6	\$ 30	\$ 3	\$ 69	
System development and other purchased services	7	–	1	1	9	
Premises and equipment	3	1	3	–	7	
Professional services ⁽ⁱⁱ⁾	4	3	1	–	8	
Travel and communication	4	2	2	–	8	
Investment operating and manager expenses	53	44	1	2	100	
	\$ 101	\$ 56	\$ 38	\$ 6	\$ 201	

(MILLIONS)	2006					
	Public Market	Private Equity	Infra- structure	Real Estate	Total	
Salaries and benefits	\$ 19	\$ 8	\$ 23	\$ 1	\$ 51	
System development and other purchased services	7	2	–	1	10	
Premises and equipment	2	–	2	–	4	
Professional services ⁽ⁱⁱ⁾	1	3	3	1	8	
Travel and communication	4	2	1	–	7	
Investment operating and manager expenses	51	34	2	2	89	
	\$ 84	\$ 49	\$ 31	\$ 5	\$ 169	

(i) Includes allocation of corporate expenses.

(ii) Total professional services expenses include actuarial costs of \$0.6 million (2006 – \$0.6 million), audit costs of \$0.7 million (2006 – \$0.7 million) and legal costs of \$7.0 million (2006 – \$5.5 million).

Note 14

EXECUTIVE COMPENSATION

The compensation amounts for 2007 and 2006 are included under salaries and benefits in note 13. The table below represents disclosure of base earnings, annual incentive plan, long-term incentive plan and other compensation earned in 2005, 2006 and 2007 by the individuals holding the position of President and Chief Executive Officer ("CEO"), the Chief Financial Officer ("CFO") and the three other most highly compensated executives in 2007. This disclosure is consistent with the guidelines of the Ontario Securities Commission for public companies.

Name and Principal Position	Year	Base Earnings	Annual Incentive Plan ⁽ⁱ⁾	Long-Term Incentive Plan ⁽ⁱⁱ⁾	Other ⁽ⁱⁱⁱ⁾	Taxable Benefits ^(iv)	Total
Michael Nobrega ^(v) President and CEO	2007	\$ 448,077	\$ 885,425	\$ 1,900,796	\$ 68,462	\$ 49,081	\$ 3,351,841
	2006	400,000	796,000	1,861,532	39,231	53,171	3,149,934
	2005	400,000	752,000	–	39,231	52,364	1,243,595
Paul G. Haggis ^(vi) President and CEO	2007	\$ 188,654	\$ 738,537	\$ 1,289,452	\$ 1,823,066	\$ 9,552	\$ 4,049,261
	2006	450,000	524,637	133,123	–	16,581	1,124,341
	2005	425,000	374,999	133,123	–	16,528	949,650
Patrick G. Crowley ^(vii) Chief Financial Officer	2007	\$ 400,000	\$ 400,000	\$ –	\$ 10,740	\$ 2,574	\$ 813,314
	2006	30,769	–	–	826	109	31,704
R. Michael Latimer President and CEO	2007	\$ 600,000	\$ 600,000	\$ 2,017,149	\$ 30,000	\$ 36,650	\$ 3,283,799
	2006	600,000	600,000	1,980,402	30,000	22,967	3,233,369
OPGI Management GP Inc. (Real Estate)	2005	600,000	600,000	–	30,000	22,367	1,252,367
Paul G. Renaud ^(viii) President and CEO	2007	\$ 393,077	\$ 766,500	\$ 440,083	\$ 5,000	\$ 40,992	\$ 1,645,652
	2006	383,230	566,138	318,547	–	23,737	1,291,652
OMERS Capital Partners Inc. (Private Equity)	2005	360,000	346,500	105,547	–	19,927	831,974
Michael Rolland ^(ix) President and CEO Borealis Capital Corporation (Infrastructure)	2007	\$ 336,154	\$ 598,229	\$ 1,050,394	\$ 28,385	\$ 25,630	\$ 2,038,792

- (i) The annual incentive plan is based on a combination of achieving corporate and individual performance objectives, such as investment performance targets and pension service standards. The annual incentive plan amount relates to the year it was earned.
- (ii) The long-term incentive plan is awarded based on meeting pension and/or investment return objectives over a multi-year performance period.
- (iii) Includes hiring, retirement, car and other allowances.
- (iv) Includes group retirement savings plan contributions, insurance and other benefits.
- (v) Assumed the role of President and CEO of the AC on March 12, 2007. Prior to this appointment, Mr. Nobrega held the position of President and CEO of Borealis Capital Corporation (Infrastructure). The 2007 amounts reflect compensation from both positions.
- (vi) Stepped down as President and CEO of the AC on March 9, 2007; however, Mr. Haggis continued to be employed by the AC over a transition period until May 31, 2007. Other compensation for 2007 includes a retiring allowance of \$1.8 million.
- (vii) Joined the AC on December 4, 2006.
- (viii) Assumed the role of President and CEO of OMERS Capital Partners Inc. (Private Equity) on May 25, 2006. Prior to this appointment, Mr. Renaud held the position of Senior Vice President and CFO of the AC. The 2006 amounts reflect compensation from both positions.
- (ix) Assumed the role of President and CEO of Borealis Capital Corporation (Infrastructure) on March 12, 2007. Prior to this appointment, Mr. Rolland held the position of Senior Vice President of Borealis Capital Corporation (Infrastructure). The 2007 amounts reflect compensation from both positions.

The following table represents disclosure of the present value of pension benefits and years of credited service for those individuals whose remuneration is disclosed on page 75 and who are active members of the Plan and the RCA at December 31, 2007.

Name and Principal Position	2007 Change in Pension Value	2007 Present Value of Total Pension	Number of Years of Credited Service
Michael Nobrega President and CEO	\$ 452,743	\$ 452,743	0.8
Paul G. Haggis President and CEO	\$ 194,664	\$ 869,855	3.7
Patrick G. Crowley Chief Financial Officer	\$ 175,411	\$ 181,804	1.1

Note 15

GUARANTEES, COMMITMENTS AND CONTINGENCIES

As part of normal business operations, the AC enters into commitments and guarantees related to the funding of investments. Future commitments to fund investments include but may not be limited to investments in infrastructure, real estate and private equity limited partnership agreements. As at December 31, 2007, these future commitments totaled \$5.8 billion (2006 – \$5.2 billion). The maximum amount payable under guarantees and standby letters of credit provided as part of investment transactions was \$381 million as at December 31, 2007 (2006 – \$346 million).

The AC, in the normal course of business, indemnifies its and its subsidiaries' and affiliates' directors, officers, employees and certain others in connection with proceedings against them. In addition, the AC may in certain circumstances in the course of investment activities, agree to indemnify a counterparty. Under the terms of such arrangements, the AC and/or its subsidiaries and affiliates may be required to compensate these parties for costs incurred as a result of various contingencies such as changes in laws and regulations or legal claims. The contingent nature of the liabilities in such agreements and the range of indemnification prevent the AC from making a reasonable estimate of the maximum amount that would be required to pay all such indemnifications.

As at December 31, 2007, the AC was involved in litigation and claims which arise in the normal course of business. The outcome of such litigation and claims is inherently difficult to predict; however, in the opinion of management, any liability that may arise from such contingencies would not have a significant adverse effect on the consolidated financial statements of the AC.

Ten-Year Financial Review

(\$ MILLIONS)	2007	2006	2005	2004	2003	2002	2001	2000	1999	1998
Net Assets as at December 31										
Public markets	43,291	43,533	39,338	30,283	30,168	23,823	27,755	30,941	30,303	28,026
Private equity	3,608	2,951	2,391	1,460	914	1,021	1,031	1,128	849	508
Infrastructure	8,412	5,585	3,719	2,314	1,426	349	279	-	-	-
Real estate	10,904	8,541	6,180	6,898	6,920	7,747	8,181	4,707	4,126	3,995
	66,215	60,610	51,628	40,955	39,428	32,940	37,246	36,776	35,278	32,529
Other investment assets	1,001	699	765	494	578	733	652	637	493	297
Investment liabilities	(15,029)	(13,088)	(10,772)	(5,267)	(7,297)	(3,540)	(3,977)	(860)	(280)	(916)
Net investment assets	52,187	48,221	41,621	36,182	32,709	30,133	33,921	36,553	35,491	31,910
Non investment assets/(liabilities)										
Due to administered funds	(800)	(741)	(639)	(553)	(496)	(440)	(487)	(528)	(502)	(437)
Other assets/(liabilities)	129	125	83	26	(120)	(188)	(191)	(150)	(59)	(93)
Net assets	51,516	47,605	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380
Changes in Net Assets for the period ended December 31										
Net assets, beginning of the year	47,605	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108
Change in accounting policy for transaction costs	(37)	-	-	-	-	-	-	-	-	-
Net assets, beginning of year restated	47,568	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380	29,108
<i>Changes due to Investment Activities</i>										
Total investment income	4,200	6,803	5,767	3,907	3,751	(2,358)	(1,362)	2,114	4,711	2,949
Investment management expenses	(201)	(169)	(160)	(147)	(158)	(103)	(69)	(62)	(52)	(50)
	3,999	6,634	5,607	3,760	3,593	(2,461)	(1,431)	2,052	4,659	2,899
Income credited to administered funds	(61)	(104)	(92)	(66)	(51)	28	4	(47)	(85)	(52)
Net investment income	3,938	6,530	5,515	3,694	3,542	(2,433)	(1,427)	2,005	4,574	2,847
<i>Changes due to Pension Activities</i>										
Contributions										
Employer and member	1,840	1,739	1,498	1,363	404	-	-	-	-	364
Other contributions	46	53	36	46	42	47	36	30	27	8
	1,886	1,792	1,534	1,409	446	47	36	30	27	372
Benefit payments to members										
Pensions paid	(1,554)	(1,492)	(1,410)	(1,353)	(1,246)	(1,153)	(1,034)	(916)	(817)	(761)
Commuted value and other payments	(279)	(252)	(193)	(145)	(110)	(149)	(159)	(129)	(188)	(159)
	(1,833)	(1,744)	(1,603)	(1,498)	(1,356)	(1,302)	(1,193)	(1,045)	(1,005)	(920)
Pension administrative expenses	(43)	(38)	(36)	(43)	(44)	(50)	(48)	(45)	(46)	(27)
Net assets, end of year	51,516	47,605	41,065	35,655	32,093	29,505	33,243	35,875	34,930	31,380
Actuarial Surplus/(Deficit) - Plan as at December 31										
Net assets	51,479	47,576	41,046	35,643	32,087	29,500	33,236	35,867	34,921	31,372
Actuarial value adjustment of net assets	(4,567)	(5,791)	(2,707)	1,168	3,888	6,048	2,239	(1,913)	(3,957)	(3,135)
Actuarial assets	46,912	41,785	38,339	36,811	35,975	35,548	35,475	33,954	30,964	28,237
Actuarial liabilities	(46,830)	(44,167)	(41,123)	(37,774)	(35,466)	(33,034)	(30,955)	(28,104)	(25,462)	(22,283)
Surplus/(Deficit)	82	(2,382)	(2,784)	(963)	509	2,514	4,520	5,850	5,502	5,954
Actuarial Deficit - RCA as at December 31										
Net assets	37	29	19	12	6	5	7	8	9	8
Actuarial liabilities	(236)	(172)	(157)	(149)	(69)	(63)	(71)	(54)	(42)	(41)
(Deficit)	(199)	(143)	(138)	(137)	(63)	(58)	(64)	(46)	(33)	(33)
Total Annual Rate of Return for period ended December 31										
Time-weighted return on market value	8.7%	16.4%	16.0%	12.1%	12.7%	-7.1%	-3.4%	6.2%	15.2%	10.1%
Benchmark	5.6%	13.7%	13.2%	9.9%	15.5%	-7.4%	-4.2%	4.1%	14.7%	10.7%
Funding requirement (including inflation)	6.6%	5.9%	6.4%	6.4%	6.3%	8.1%	5.0%	7.5%	6.8%	5.3%

We're very pleased to be part of this joint report for 2007.



This is our first report to OMERS members, employers and sponsors. In recognition of the integrated governance structure at OMERS and of the unified approach we bring to our responsibilities, we are presenting our first Annual Report in conjunction with that of OMERS Administration Corporation (AC).

As a result of Bill 206, a new and independent governance model has been established at OMERS. The legislation changes the plan sponsor, with the Provincial government being replaced by the OMERS Sponsors Corporation (SC). This gives employers, employees and retirees control over the pension plan. OMERS has a long history of serving its members well. As the newest member of the team, we are keenly aware of our responsibilities in extending this track record.

While the Annual Report is a requirement of our legislation, we also view it as a means of demonstrating our accountability to you, and as one of the most important ways we have to communicate what the SC is doing to represent your interests in the OMERS Primary Pension Plan (the Plan) and the Retirement Compensation Arrangement (the RCA) associated with the Plan (together, the OMERS Plans).

Fulfilling Our Mandate

Our mandate is to represent OMERS sponsors in the oversight of the OMERS Plans. In practical terms, this means that every decision or initiative we make reflects the interests of OMERS members, employers and retirees. In doing so, we work closely with the AC, fulfilling our respective mandates to govern and administer the OMERS Plans in an effective and efficient manner.

The major focus of OMERS Sponsors Corporation in 2007 was to complete the transition from the interim structure established in the OMERS Act to a permanent structure as set out in our by-laws and policies. The AC Board and management worked effectively with us during the past year to make this transition a successful one.

Governance of course is a key issue for us and for our members. OMERS has a history of leadership among Canadian pension plans in this area, and our clear objective at the SC is to ensure that this philosophy of continuous improvement is maintained by both the SC and AC boards. While we continue to work to develop and implement an effective initial governance structure, and made great strides in this regard during 2007, we are looking beyond the transition in establishing structures and processes, including working with the AC on establishing a series of joint protocols related to the governance of OMERS, that will allow the SC and AC to focus effectively on their respective areas of responsibility.

We face a number of challenges in 2008

Pension regulations require that we file our December 31, 2007 Plan valuation report by September 30, 2008. This report will allow us to assess the potential impact of our funded status on contribution rates and plan design decisions.

In 2008, we will start receiving proposals directly from OMERS constituents regarding specific changes to the Plan. One of our focuses will be to ensure that we effectively communicate the various mechanisms for receiving this input to all members, employers and sponsors. By July 1, 2008, the development of the Supplemental Plan for members of the police sector, firefighters and paramedics will be complete and the SC will assume responsibility for it.

Finally, there are several major requirements associated with the SC's ongoing operations, including finalizing permanent funding arrangements, and resolving a number of governance issues, such as the composition of the AC Board in anticipation of the end of its transition period in the summer of 2009. The 14-member AC Board

of Directors was initially appointed by the Ontario government at the time of the new OMERS Act. Following the completion of the transition period, SC by-laws will establish the process to be followed for appointing AC directors.

Our commitment to your future

The SC is proud to be part of OMERS team. We made considerable progress in 2007 and we are pleased to have been able to continue to contribute to OMERS exceptional performance in all areas of its mandate, and to creating and implementing the new governance structure for the OMERS Plans.

There is considerable work still to be accomplished in 2008 and beyond, and we look forward to continuing to serve our members, retirees, employers and sponsors in the future.

Sincerely,



Marianne Love
Co-Chair
Employer Group



Brian O'Keefe
Co-Chair
Employee Group

Year in Review

What We Do

- The SC was established by the OMERS Act as a key component of OMERS, with responsibility for the design of the OMERS Plans.
- We are responsible for setting contribution rates and establishing any stabilization reserves.
- We determine the timing of when to file the plan valuation (at least every three years), we set the terms and conditions for participation in the OMERS Plans, and we can enter into agreements with other pension plans to manage them.
- We determine the compensation paid to members of the Boards of the SC and AC and are responsible for establishing the composition and the method of choosing the members of the Boards of the SC, and after June 29, 2009, of the AC.
- We work closely with the AC to carry out these and many other functions. Both the SC and AC have distinct oversight responsibilities for the OMERS Plans.

Who We Serve

- The SC represents the interests of the sponsors of the OMERS Plans in carrying out its duties.
- The members of the corporation have a responsibility to act honestly, in good faith, with prudence and without conflict of interest in carrying out the SC's mandate.

Who We Are

- There are 14 members of the SC, appointed directly by the sponsors. Seven are appointed by employer sponsors and seven are appointed from among employee sponsors, as set out in the SC's by-laws. The composition of the SC is detailed on pages 82 and 84.
- The Members have a broad range of experience and competencies that fairly reflect the needs and interests of members, retirees, and employers.

2007 – A Year of Transition

- 2007 was the first full year for the SC, with activity primarily focused on starting up operations and developing the governance structure that the SC requires to fulfil its responsibilities to the OMERS Plans.
- In 2007, the SC completed the transition from an interim state as set out in the OMERS Act, to a permanent structure as set out in the various by-laws of the corporation.
- In completing this transition, the SC worked extensively with the AC and with other outside advisors.
- The SC established governance and other structures required to carry out its mandate, made key decisions regarding the design of the OMERS Plans, and worked to establish permanent funding for its operations.

Setting up the Team

- The protocols for appointing members of the SC directly by the sponsors were established in the corporate by-laws.
- The interim appointments of members of the SC made by the Ontario government were replaced by permanent appointments made directly by the sponsors.
- The SC established working groups to address by-laws, governance, compensation, composition and other matters.
- The terms of reference for the two Advisory Committees on Benefits for public safety occupations and for other OMERS members, were established and nominations from sponsors have been accepted.

Carrying out the SC's Work

- The SC met monthly throughout the year. A record of meeting attendance can be found in the Declaration for Individual SC Members found on page 83.
- The SC held a strategic planning retreat with an expert facilitator in the fall of 2007 to consider its governance requirements and other matters related to its work during transition.
- The SC, through by-laws and resolutions, established protocols for receiving proposals for specified changes from sponsors, employers and members, and for making decisions regarding these proposals.
- The SC established guidelines for communications with plan members, employers and sponsors.

Making Plan Design Decisions

- Based on the recommendation of the AC, the SC decided not to file the December 31, 2006 OMERS Plan Valuation. This resulted in stable contribution rates for 2008.
- Working with the AC, the SC considered six plan design changes:
 1. Changing the inflation protection methodology to align with the methodology employed by the Canada Pension Plan.
 2. Clarification of transfer provision related to commuted values to ensure consistency and fairness in the way transfers are administered.
 3. Revoking the authority of the OMERS AC Board to change contribution rates and making the plan compliant with the OMERS Act.
 4. Deemed termination of employment to allow members with a shortened life expectancy the option to receive a lump sum payment of their OMERS benefit.
 5. Incentive payments and a cap on pensionable earnings over a certain percentage of base pay.
 6. Providing normal retirement age of 60 for paramedics.
- Plan changes in items 1 through 4 were approved. Items 5 and 6 were not approved in 2007.

Establishing Permanent Funding

- The SC negotiated a transfer funding agreement with the Ontario government to provide \$2.5 million over 33 months to fund initial startup and operating expenses.
- The SC needs a permanent funding base in order to continue its operations. It has two sources of funding, as set out in the OMERS Act:
 - Reimbursement of costs from the OMERS Plans, along with the provision of technical and administrative support by the AC.
 - Levying SC fees directly from active members and employers for items which cannot be funded from the OMERS Plans.
- The SC and AC have established a Joint Protocol on Sponsors Corporation Costs and Reimbursement, setting out a number of categories of costs which can be paid from the OMERS Plans. These categories include SC meeting expenses, audit fees and preparation of the annual report.

- The SC and AC have initiated an application to the Superior Court of Ontario to confirm the Joint Protocol. Members, employers, and sponsors were notified of this application in the fall of 2007. The application will be heard in January 2008.
- The SC has been developing a mechanism, through the AC, for levying SC fees. This mechanism should be in place in the first quarter of 2008.

Working as a Team with the OMERS Administration Corporation

- The AC, along with OMERS management, has provided the SC technical and administrative support to help it carry out its duties and responsibilities to the members, employers and sponsors.
- The SC and AC co-hosted the regional general meeting in Timmins, Ontario in May of 2007 and co-hosted a spring and fall meeting of stakeholders at OMERS corporate head office in Toronto.
- The SC and AC held a joint session in the fall of 2007 to consider actuarial matters related to their respective mandates.
- The SC Co-Chairs met monthly with the AC Chair and Vice Chair and OMERS management to address various matters.
- The SC and AC are located at One University Avenue in Toronto.

SC Governance

While the SC as an entity is new, our role is not. As a result of Bill 206, the SC has become the plan sponsor, giving employers and employees control over the pension plan. OMERS has a long history of exemplary corporate governance and the SC has committed itself to continuing those high standards of integrity, education, transparency and communication in carrying out its responsibilities.

Governance

The SC strives for best practices standards in corporate governance. To achieve this goal, we have developed policies and practices, in conjunction with third party advisors who are expert and experienced in the field. Our governance structure includes:

- Corporate by-laws and policies that support this commitment to a best practice standard.
- A continuing education program for members that requires director certification, and includes certificates in pension administration, benefits strategies and trustee development, as well as mandatory orientation to the OMERS Plans.
- Transparency and accountability to OMERS plan participants through regular meetings with plan participants and stakeholders as well as timely and accurate print and electronic communication carried out in conjunction with the AC.

Board Membership

By-Law #4 sets out the composition and method of appointing SC Members. It was passed on April 30, 2007, and its provisions will be reviewed prior to January 31, 2009, and regularly thereafter, to ensure that the composition of the SC is representative of the participants in the OMERS Plans.

The SC is comprised of seven employer representatives and seven plan member representatives as follows:

Employer Representatives

- Association of Municipalities of Ontario – two members
- City of Toronto – one member
- School Boards, rotating between public and Catholic Boards – one member
- Ontario Association of Police Services Boards – one member
- Ontario Association of Children's Aid Societies – one member
- Electricity Distributors Association (Ontario) – one member

Plan Member Representatives

- Canadian Union of Public Employees (Ontario) – one member
- Canadian Union of Public Employees rotating between Locals 79 and 416 – one member
- Police Association of Ontario – one member
- Ontario Professional Fire Fighters Association – one member
- Ontario Secondary School Teachers' Federation – one member
- Ontario Public Service Employees Union – one member
- Retirees – appointed from among the Municipal Retirees Organization Ontario, the Police Pensioners Association of Ontario, the Police Retirees of Ontario and the Retired Professional Fire Fighters of Ontario – one member

There are 18 total votes on the SC. Employer Representatives and Employee Representatives as a group, have nine votes each. Individual SC members have one vote each with the following exceptions – the representatives from AMO have two votes each, and the representative from CUPE Ontario has three votes.

Compensation and Expenses for SC Members

Compensation

SC Members are compensated through an annual retainer which covers attendance at both Corporation and committee meetings. There are no per diem payments for meeting attendance. The retainer may be paid directly to the member or to the organization with which they are affiliated.

The SC annual retainer is:

Co-Chairs	\$30,000
Committee Chairs	\$18,000
All other Members	\$15,000

Reimbursement of Expenses

SC Members are entitled to reimbursement of reasonable and necessary expenses incurred in connection with carrying out the business of the Corporation, subject to the necessary approvals under By-Law #6.

Education Expenses

SC Members are reimbursed for travel, tuition and other expenses incurred in attending conferences, or other educational programs, which are approved or mandated by the SC under By-Law #6. Aggregate education expenses in 2006 were nil and in 2007 were \$21,536.

Meeting Attendance

There were 4 regular meetings of the Board in 2006 and 16 meetings in 2007.

Declaration for Individual Sponsors Corporation Members

	2007			2006		
	Meeting Attendance	Remuneration (\$)	Expenses ⁽¹⁾ (\$)	Meeting Attendance	Remuneration (\$)	Expenses ⁽¹⁾ (\$)
Marianne Love, Co-Chair	16	30,000	10,271	4	15,000	1,683
Brian O'Keefe, Co-Chair	16	30,000	2,339	4	15,000	300
Joseph Aitchison	15	15,000	7,307	4	7,500	1,803
Brian Cain	16	15,000	5,491	4	7,500	797
Ann Dembinski	14	15,000	707	4	7,500	0
Louise Eason ⁽²⁾	9	7,500	0	4	7,500	260
John Fleming ⁽³⁾	6	7,500	1,044	n/a	n/a	n/a
Jack Jones	15	15,000	0	4	7,500	0
Fred LeBlanc	14	15,000	5,012	4	7,500	1,264
Charlie Macaluso	14	15,000	1,558	3	7,500	921
Bruce Miller	16	15,000	7,299	4	7,500	1,329
Glen Mills	14	15,000	10,758	4	7,500	2,279
Marnie Niemi	14	n/a	693	4	n/a	0
Garth Pierce	16	15,000	5,850	4	7,500	1,326
Bruce Stewart	16	15,000	4,002	3	7,500	1,289
Total		225,000	62,331		112,500	13,251

(1) Expenses relate to individual expenses incurred for board meetings, working group and stakeholder meetings and to administrative work on behalf of the SC, but do not include general and education expenses.

(2) Term ended June 30, 2007.

(3) Term commenced July 1, 2007.

Sponsors Corporation Members



**Marianne Love,
Co-Chair**

Employer Representative for
Association of Municipalities
of Ontario



**Brian O'Keefe,
Co-Chair**

Plan Member Representative
for CUPE Ontario



Joe Aitchison

Employer Representative
for Ontario Association of
Children's Aid Societies



Brian Cain

Employer Representative
for Ontario Public School
Boards' Association



Ann Dembinski

Plan Member
Representative for
CUPE Locals 79 and 416



John Fleming

Employer Representative
for the City of Toronto



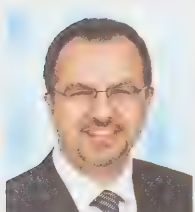
Jack Jones

Plan Member
Representative for
Ontario Secondary School
Teachers' Federation



Fred LeBlanc

Plan Member Representative
for Ontario Professional
Fire Fighters Association



Charlie Macaluso

Employer Representative
for Electricity Distributors
Association



Bruce Miller

Plan Member
Representative for Police
Association of Ontario



Glen Mills

Plan Member
Representative for Retirees



Marnie Niemi

Plan Member
Representative for
Ontario Public Service
Employees Union



Garth Pierce

Employer Representative
for Ontario Association
of Police Services Boards



Bruce Stewart

Employer Representative for
Association of Municipalities
of Ontario

Auditors' Report

To the Board of OMERS Sponsors Corporation

We have audited the statement of financial position as at December 31, 2007 and the statement of operations and of cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion these financial statements present fairly in all material respects, the financial position of the Corporation as at December 31, 2007 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Langlois Hauck Zettner & Co. LLP

Chartered Accountants,
Licensed Public Accountants
North York, Ontario

February 6, 2008

Financial Statements

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31,

2007

2006

Assets

Cash	\$ 853,280	\$ -
Government Grant Receivable	-	500,000
Total Assets	\$ 853,280	\$ 500,000

Liabilities

Accounts Payable and Accrued Liabilities	\$ 114,950	\$ 144,837
Total Liabilities	114,950	144,837

Net Assets

Excess of Revenue Over Expenses From Operations		
Balance at Beginning of Year	355,163	-
Current Year	383,167	355,163
Balance at End of Year	738,330	355,163
Total Liabilities and Net Assets	\$ 853,280	\$ 500,000

The accompanying notes to the financial statements are an integral part of these financial statements.

Signed on Behalf of the Board of OMERS Sponsors Corporation



Marianne Love



Brian O'Keefe



Brian Cain

STATEMENT OF OPERATIONS

FOR THE YEAR ENDED DECEMBER 31,

	2007	2006
Revenues		
Government Grant Revenue	\$1,250,000	\$ 500,000
Interest Income	23,220	-
Total Revenue	1,273,220	500,000
Expenses		
Contract Staff	54,690	-
Legal	303,189	13,136
Audit	2,625	2,625
Other Administrative	11,272	-
Professional Consulting (NOTE 3)	183,267	-
Payroll Taxes	6,650	3,325
Board Remuneration (NOTE 4)	225,000	112,500
Board Expenses	103,360	13,251
Total Expenses	890,053	144,837
Excess of Revenues Over Expenses from Operations	\$ 383,167	\$ 355,163

The accompanying notes to the financial statements are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31,

	2007	2006
Cash Flows Provided by the Following Activities		
Operating		
Excess of Revenues over Expenses	\$ 383,167	\$ 355,163
Changes in Non-cash Working Capital Accounts		
Government Grant Receivable	500,000	(500,000)
Accounts Payable and Accrued Liabilities	(29,887)	144,837
Increase in Cash	853,280	-
Cash at Beginning of Year	-	-
Cash at End of Year	\$ 853,280	\$ -
Supplemental Disclosures of Cash Flows From Operating Activities		
Interest Received	\$ 23,220	\$ -

The accompanying notes to the financial statements are an integral part of these financial statements.

Notes to Financial Statements

Year ended December 31, 2007

Note 1

DESCRIPTION OF PLANS SPONSORED BY OMERS SPONSORS CORPORATION

The OMERS Sponsors Corporation (the "SC") is a corporation without share capital under the *Ontario Municipal Employees Retirement System Act, 2006* (the "OMERS Act") as at June 30, 2006. The SC is the sponsor of the OMERS Pension Plans as defined in the OMERS Act which are administered by OMERS Administration Corporation (the "AC") and include the OMERS Primary Pension Plan (the "Plan") and the Retirement Compensation Arrangement (the "RCA"). The Ontario Municipal Employees Retirement System ("OMERS") represents the combined retirement system comprised of the SC, the AC, the Plan, and the RCA.

The SC is responsible for making decisions about the design of the Plan and the RCA, amendments to those plans, setting contribution rates, and the filing of the actuarial valuation as required under the *Pension Benefits Act*.

Note 2

SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared on a going concern basis in accordance with Canadian generally accepted accounting principles and present the information of the SC as a separate financial reporting entity independent of the employers, plan members and the AC.

Revenue Recognition

Government grants for operations are received or receivable from the Ministry of Municipal Affairs and Housing of the Ontario Government (the Ministry) and are recognized as income in the year if the amount to be received can be reasonably estimated and collection is reasonably assured. The agreement with the Ministry states that any part of the grant funds that have not been used or accounted for by the SC at the time the agreement expires on March 31, 2009 shall belong to the Ministry. Interest income for operations is recognized as income in the year received.

Income Taxes

The corporation is not subject to Corporate Income Tax.

Use of Estimates

The preparation of financial statements is in conformity with Canadian generally accepted accounting principles which require management to make estimates and assumptions that affect the reported values of assets and liabilities, income and expenses, and related disclosures. Actual results could differ from these estimates.

Note 3

PROFESSIONAL CONSULTING

Professional consulting expenses consist primarily of a Board compensation review, insurance review, professional recruitment expenses, and governance advice.

Note 4

BOARD REMUNERATION AND EXPENSES

Board remuneration and board expenses are in accordance with SC By-Law #6 established by the SC Board.

Note 5

CONTINGENCIES AND RELATED PARTY TRANSACTIONS

During 2007 the SC and the AC jointly took an issue before the Ontario Superior Court of Justice (the Court) for a ruling as to the nature of support and expenditures that can be provided or reimbursed by the AC to the SC. Subsequent to December 31, 2007 the Court ruled on the type of expenses which are eligible for reimbursement to the SC from the AC. The amount of support and expenditure reimbursement will be determined following the AC and the SC agreement on the amount of expenses eligible or, failing agreement, a determination of the Court on the issue.

Note 6

FINANCIAL INSTRUMENTS

Financial instruments of the corporation consist of cash, amounts receivable, and accounts payable and accrued liabilities. The carrying values of the above items approximate their fair value due to their short-term nature.

Note 7

COMPARATIVE FIGURES

The comparative figures relate to the start-up period June 30, 2006 to December 31, 2006.

Glossary

Absolute Return Strategies – Strategies expected to generate positive returns regardless of the movements of the financial markets due to their low correlation to broad financial markets. Absolute return strategies may be used with the objective of increasing the overall investment portfolio risk-adjusted return while contributing to the stability of the overall investment portfolio returns.

AC – OMERS Administration Corporation.

AC Board – The Board of Directors of the AC.

Active Management – Attempts to add value through asset mix decisions and the buying and selling of undervalued or overvalued securities. The objective is to outperform a passive market benchmark.

Actuarial Smoothing – A common practice accepted in the actuarial profession and by pension regulators to reduce the effect of short-term market fluctuations on pension plan funding by deferring and amortizing changes in net assets above or below the long-term funding objective over five years.

Actuarial Valuation Report – A report issued by the AC's actuary on the funded status of the Plan and the RCA. An actuarial valuation is based on a set of assumptions, as approved by the AC Board, that include demographic and economic assumptions.

Autonomy – Self-governing.

Basis Point – One basis point equals 1/100th of one percentage point.

Benchmark – A benchmark is a standard or point of reference against which performance of an investment is measured. It is generally a passive external index (i.e. the S&P/TSX Composite Index) or a predetermined absolute return based on operating plans approved by the AC Board.

Benefit Accrual – The accumulation of pension benefits based on a formula using years of credited service, pensionable earnings and an accrual rate. This is expressed in the form of an annual benefit to begin payment at normal retirement age.

Bridge Benefit – A temporary benefit provided to members who retire prior to age 65. The bridge benefit supplements the pension income until age 65. The bridging benefit is not necessarily related to the size of the prospective government benefits.

Commercial Paper – Short-term unsecured debt instruments issued by companies typically to meet short-term financing needs.

Commutated value – The lump sum needed today to replace a member's future pension amount based on the member's service and earnings to date. The commuted value fluctuates with changes in factors such as the member's age, current inflation and interest rates.

Currency Hedging – A technique used to offset the risks associated with the changing value of currency.

Custom Benchmark – A benchmark calculated based on the weighted average allocation to two or more underlying benchmarks (i.e. 50 per cent Scotia Capital 31 Day Treasury Bill Index + 50 per cent Scotia Capital Universe).

Debentures – Bonds that are not secured by the assets of a firm.

Debt Financing – The long-term borrowing of money by government or a business, usually in exchange for debt securities or a note, in order to obtain working capital or to retire other indebtedness.

Defined Benefit Plan – In a defined benefit plan members' benefits are determined by a formula usually based on years of service times earnings, rather than by the investment returns made on their pension contributions.

Derivative / Derivative Financial Instrument – A financial contract that derives its value from changes in underlying assets or indices. Derivative transactions can be conducted on public exchanges or in the over the counter market using investment dealers. Derivative contracts include forwards, futures, swaps and options and are discussed in more detail in note 4 of the AC Consolidated Financial Statements.

Discount Rate – A discount rate is the interest rate used to compute the present value of anticipated future cash flows.

Enterprise-wide – This refers to the AC, including Pension Administration, OMERS Capital Markets, Borealis Infrastructure, OMERS Capital Partners, Oxford Properties Group and corporate functions.

Infrastructure – Infrastructure investing involves direct investments in inflation-sensitive assets that are critical to the long-term success of a modern industrial economy. Some infrastructure investments are subject to regulatory establishment of rates, service delivery levels or both.

Modified Pay-As-You-Go Funding Policy – Promised retirement benefits are not fully pre-funded, instead contributions are paid into the RCA to fund benefits. This variation of the funding method is used by OMERS for the RCA, in order to minimize the 50 per cent refundable tax applicable to RCA plans.

Nominal Bonds – Bonds that pay interest and principal without contractual adjustments for inflation.

OMERS – The Ontario Municipal Employees Retirement System represents the combined retirement system comprised of the SC, the AC, the Plan and RCA.

OMERS Pension Plans or OMERS Plans – Collectively, the OMERS Primary Pension Plan and the RCA.

OMERS Primary Pension Plan or the Plan – The primary registered pension plan administered by the AC under the OMERS Act.

Passive Investments – Investing in a manner that replicates the performance of a market index (i.e. S&P/TSX Composite Index).

Plan Sponsor – The organization or body, which has the final authority to create a pension plan and/or make revisions to an existing pension plan. Usually the plan sponsor is an employer, but it can also be a union, an association, the government, or a mixture. For the OMERS Primary Pension Plan and the RCA, the Sponsors Corporation is made up of employer and member representatives and acts as the sponsor.

Private Equity – Private equity is the ownership of equity or equity-like securities in companies that do not generally trade publicly.

Proxy Voting – Proxy voting is the process by which a shareholder expresses their views, on proposed corporate actions, by submitting their vote at a company's annual meeting.

Public Markets – Public market investments are investments in securities (i.e. equities, trust units, warrants, mutual fund units, bonds, etc.) listed on recognized public exchanges.

RCA – The Retirement Compensation Arrangement for the OMERS Primary Pension Plan.

Real Rate of Return – Nominal return adjusted to exclude the impact of inflation.

Real Return Bonds – Interest bearing marketable bonds that pay a semi-annual coupon rate calculated based upon the sum of the principal amount and an inflation compensation component that adjusts for changes in the inflation.

SC – OMERS Sponsors Corporation.

SC Board – The Board of the SC.

Secured Debt – Debt backed or secured by collateral to reduce the risk associated with lending for creditors given that if the debtor defaults the creditor may seize the collateral as repayment of the debt.

Supplemental Plan – A stand-alone registered pension plan which offers benefits not available in the OMERS Primary Pension Plan and which is not funded from the OMERS Primary Pension Plan.

Unsecured Debt – Debt which is not backed or secured by collateral property.

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